SMALL BUSINESS ADMINISTRATION
STANDARD OPERATING PROCEDURE

Headquarters

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Oversight and Regulation of Small Business Investment Companies	SECTION 10	NO. 06	A

INTRODUCTION

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Appendix 14: Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies

TABLE OF CONTENTS 121

I. INTRODUCTION 123

II. RECORDKEEPING AND FINANCIAL REPORTING 123

A. RECORDS AND REPORTS 123
B. ACCOUNT CLASSIFICATION 123
D. FILING OF ANNUAL FINANCIAL REPORT 124
F. INTERIM REPORTS 124

III. SELECTION AND QUALIFICATION OF THE AUDITOR 124

A. SELECTION OF THE AUDITOR 124
B. QUALIFICATION OF THE AUDITOR 124
C. INDEPENDENCE 125

IV. ANNUAL AUDIT 125

A. GENERALLY ACCEPTED AUDITING STANDARDS 125
B. INDEPENDENT AUDITORS' REPORT 125
C. ACCESS TO ACCOUNTANTS' WORKING PAPERS 127
D. ACCOUNTANTS' RESPONSIBILITY FOR VALUATIONS 127
E. AUDIT ADJUSTMENTS 128
F. REPORTING IRREGULARITIES 128
G. DETECTING NONCOMPLIANCE WITH LAWS AND REGULATIONS 128

V. ACCOUNTING POLICIES AND PROCEDURES 129

A. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES 129
B. ACCRUAL BASIS OF ACCOUNTING 129
C. REPORTING ENTITY 129
D. FAIR VALUE OF LOANS AND INVESTMENTS 130
E. INTEREST INCOME 131
F. DIVIDEND INCOME 131
G. PROFIT PARTICIPATION IN SMALL CONCERNS 132
H. FEES CHARGED TO SMALL CONCERNS 132
I. ACCOUNTING FOR INVESTMENTS IN FLOW-THROUGH CONCERNS 132
J. EQUITY METHOD OF ACCOUNTING 133
K. ACCOUNTING FOR INCOME TAXES 133
L. REALIZED GAIN (LOSS) ON INVESTMENTS 134
M. NONMONETARY TRANSACTIONS 134
N. INTEREST, NOTES AND ACCOUNTS RECEIVABLE 135
O. COMPENSATING BALANCES 135
P. ORGANIZATION COSTS 135

Q. Contingent Liabilities 136
R. Transactions with Related Parties 136
S. Leverage--Debentures Guaranteed or Purchased by SBA 136
T. Leverage--Participating Securities Guaranteed by SBA 137
U. Preferred Stock Leverage for Section 301(d) Licensees 138
V. Contributed Capital and Committed Capital 139
W. Unrealized Gain (Loss) on Securities Held 140
X. Undistributed Realized Earnings 140
Y. Retained Earnings Available for Distribution 141
Z. Partnership Capital Accounts 142

VI. AVAILABILITY OF PUBLICATIONS AND FORMS 142

I. Introduction

i. This appendix provides guidance to Small Business Investment Companies (SBICs) on accounting policies and procedures, financial reporting to SBA, and selection of an auditor. In addition, this appendix contains guidelines for Independent Public Accountants (IPAs) engaged to conduct annual audits of SBICs. This appendix is not intended to be a comprehensive treatment of all accounting and auditing issues which may arise in an SBIC; instead, its purpose is to cover those topics that are particularly relevant to the SBIC program and which may involve the application of specialized industry practices. Therefore, Licensees and their IPAs should consult other appropriate sources of information as needed. Furthermore, as in any audit, the independent auditor of an SBIC must exercise professional judgment as to the work required to satisfy generally accepted auditing standards.

ii. This appendix contains references to the Code of Federal Regulations (CFR), Securities and Exchange Commission (SEC) Rules and Regulations, pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, publications of the American Institute of Certified Public Accountants (AICPA), and the Internal Revenue Code. Such references are subject to change. It is the responsibility of the Licensee and its advisors to be aware of any regulatory, accounting, or tax code changes that could have an effect on the Licensee.

II. Recordkeeping and Financial Reporting

A. Records and Reports

All books, records, ledgers, and other supporting documents must be maintained in the English language. See 13 CFR 107.600 through 107.660 for specific requirements relating to the retention of records and the filing of reports with SBA.

B. Account Classification

i. Licensees must maintain their books of account in accordance with the system of account classification prescribed by SBA. The system has been prescribed to ensure that Licensees maintain standard books of account and follow uniform accounting policies. If a Licensee's accounting system cannot reasonably accommodate the account numbers or titles specified by SBA, the Licensee must maintain a listing of its accounts with cross-references to the standard SBIC chart of accounts.

ii. Books of account for a management consulting or other subsidiary must be maintained using accounts compatible with those used by the Licensee.

C. Annual Financial Report (SBA Form 468)

i. The Small Business Administration, under authority granted by the Small Business Investment Act of 1958, as amended (the Act), requires each Licensee to submit an audited Annual Financial Report as of the close of its fiscal year (see 13 CFR 107.630). The Annual Financial Report consists of the financial statements and other schedules included in SBA Form 468, the Independent Public Accountant's report, the notes accompanying the financial statements, and the required certifications.

ii. Preparation of the Annual Financial Report is the responsibility of the Licensee. The Independent Public Accountant's responsibility is to perform an audit and to express an opinion on the financial statements and supplementary schedules based on the audit.

D. Filing of Annual Financial Report

i. The Annual Financial Report on SBA Form 468 must be submitted to SBA by the Licensee no later than the last day of the third month following the end of the Licensee's fiscal year. The filing must include a copy of any transmittal letter, special report, or other communication furnished by its auditor.

ii. In accordance with 13 CFR 107.504, SBA Form 468 must be prepared using the electronic reporting software provided by SBA for this purpose. A complete filing of Form 468 consists of the following:

(1) The data files produced by the Form 468 reporting software (these files may be transmitted to SBA electronically or submitted on a diskette);

(2) Two printed copies of the financial statements and supplementary schedules;

(3) The signed management certifications which appear on the last page of Form 468 (two copies, one with original signatures);

(4) The IPA's report (two copies, one with original signature); and

(5) The notes to the financial statements (two copies).

E. Portfolio Financing Report (SBA Form 1031)

For each financing of a small business, Licensees must submit a Portfolio Financing Report on SBA Form 1031 within 30 days of the closing date of the financing. Such reports must be prepared using software provided by SBA and must be electronically transmitted to SBA. Paper copies of the form will be returned to the Licensee for electronic filing. The report, which is used for program evaluation purposes, provides summary information concerning the amount and terms of the financing, the financial condition of the small business and the intended use of proceeds, as well as information that will be used to assess the economic impact of the financing.

F. Interim Reports

SBA may require Licensees to submit interim reports containing unaudited financial and/or management information, pursuant to 13 CFR 107.660(e). The form and content of such reports may be standardized or determined by SBA on a case-by-case basis.

III. Selection and Qualification of the Auditor

A. Selection of the Auditor

i. The Licensee's Board of Directors or General Partner is responsible for selecting the Independent Public Accountant (IPA). Within 30 days of its engagement by the Licensee, the Independent Public Accountant must file with the SBA a completed IPA Certification (CO Form 112) certifying as to its qualifications and independence. The IPA may be considered approved unless SBA notifies the Licensee to the contrary within 90 days after receipt of the IPA Certification.

ii. Submittal of the IPA Certification is required only upon the initial engagement of the IPA. An IPA engaged to audit an SBIC on a recurring basis does not need to submit a new Certification each year.

B. Qualification of the Auditor

Any Certified Public Accountant or Public Accountant, licensed by a regulatory authority of a State or other political subdivision of the United States, may be considered qualified to render an opinion on behalf of a Licensee, provided the following conditions are met: (1) the accountant is independent with respect to the Licensee; (2) the accountant is duly authorized to practice and is in good standing under the laws of the State or other comparable authority in which so authorized; and (3) the accountant carries at least $1 million of professional liability insurance, or is self-insured and has a net worth of at least $1 million (see 13 CFR 107.630(a)(2)). Upon written request, SBA will consider approval of an accountant who does not satisfy the insurance requirement. In responding to such a request, SBA will consider the accountant's experience in performing audits of SBICs or similar entities, as well as other indicators of the complexity and quality of audit work performed.

C. Independence

i. Independent Public Accountants approved by SBA are to follow the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants. In considering questions which may arise concerning the independence of an accountant with respect to a Licensee, the SBA will give appropriate consideration to all relevant circumstances, including evidence bearing on relationships between the accountant and such Licensee or any of its affiliates.

ii. Independence is impaired by circumstances including, but not limited to, the following.

(1) During the professional engagement, or at the time of expressing an opinion, the accountant or his/her firm:

a. Had or was committed to acquire any direct or indirect financial interest in the Licensee; or

b. Had any joint closely held business investment with the Licensee or any of its officers, directors, or principal stockholders, or any general or limited partner, which was material in relation to the net worth of the accountant or his/her firm; or

c. Had any loan to or from the Licensee or any of its officers, directors or principal stockholders, or any general or limited partner.

(2) During the period covered by the financial statements during the professional engagement, or at the time of expressing an opinion, the accountant or his/her firm:

a. Was connected with the Licensee as a promoter, underwriter, or voting trustee, a director or officer, or in any capacity equivalent to that of a member of management or of an employee; or

b. Was a trustee of any trust or executor or administrator of any estate if such trust or estate had a direct or material indirect financial interest in the Licensee; or was a trustee for any pension or profit-sharing trust of the Licensee; or

c. Rendered bookkeeping services to the Licensee; *Provided however,* that SBA may approve the rendering of bookkeeping services by independent accountants on a case-by-case basis.

iii. Independent public accountants who audit Licensees that elect to qualify as Regulated Investment Companies should become familiar with Section 600 ("Matters Relating to Independent Accountants") of the SEC's "Codification of Financial Reporting Policies."

IV. Annual Audit

A. Generally Accepted Auditing Standards

The annual audit of a Licensee's financial statements must be performed in accordance with generally accepted auditing standards (GAAS) of the AICPA and with any additional procedures which may be required under the Act. It is the responsibility of accountants to be informed of any changes in GAAS as they occur. AICPA recommendations for the application of GAAS to audits of the financial statements of investment companies are presented in the publication, "Audits of Investment Companies," which is updated periodically. Although this publication deals primarily with companies investing in marketable securities, many of its recommended audit procedures are applicable to SBICs.

B. Independent Auditors' Report

i. The Independent Auditors' Report must conform to AICPA recommendations regarding the application of generally accepted auditing standards to reports on audited financial statements of investment companies. Such recommendations are presented in chapter 9 of the AICPA publication, "Audits of Investment Companies." It is the responsibility of accountants to be aware of any changes in generally accepted auditing standards which may affect reporting requirements.

ii. The opinion expressed in the Independent Auditors' Report must refer specifically to the financial statements as they appear in SBA Form 468. An opinion expressed on financial statements prepared for general purposes, or for any specific purpose other than inclusion in SBA Form 468, is not acceptable. The financial statements may be listed by name in the auditor's report, or listed separately and referred to in the report (for example, the report could refer to the financial statements "as listed on the following page" or "as listed in the accompanying index").

iii. In addition to expressing an opinion on the basic financial statements (the statement of financial position, statement of operations realized and statement of cash flows), the Independent Auditor's Report must include a separate paragraph addressing the supplementary financial information. As with the basic financial statements, the supplementary statements and schedules may be listed in the report itself or listed separately and referred to in the report.

iv. Almost all SBICs have Loans and Investments, the value of which must be estimated by the Board of Directors or General Partner(s) in the absence of readily ascertainable market values. Until the issuance by the AICPA of Statement on Auditing Standards No. 79 (SAS 79) in December 1995, auditors' reports for such SBICs were required to include an explanatory paragraph addressing portfolio valuations. As a result of changes set forth in SAS 79 concerning the reporting of uncertainties, many auditors have concluded that an explanatory paragraph is no longer required under GAAS. SBA has modified its sample auditor's report accordingly; however, inclusion of an explanatory paragraph is specifically permitted if the auditor considers it appropriate (see the optional wording in the third paragraph of the sample report in paragraph vi. of this section).

v. Under Public Law 104-208, effective October 1, 1996, the annual audit of an SBIC must include “a statement by the independent certified public accountant” that a licensee’s valuations were prepared in conformity with its SBA-approved valuation policy. This provision is included in section 301(d) of the Act and is incorporated in 13 CFR 107.503(e)(2). SBA has determined that this legal requirement can be satisfied through the use of an explanatory paragraph in the auditor’s report on the Form 468 financial statements. The sample report in paragraph vi. of this section includes language which SBA will accept as the required “statement.”

vi. *Sample Report.* Following is a sample Independent Auditors' Report which is acceptable to SBA, based on generally accepted auditing standards in effect as of the publication date of these regulations. Any subsequent changes in generally accepted auditing standards that affect reporting requirements must be reflected in the Independent Auditors' Report included in a Licensee's filing of SBA Form 468, regardless of whether or not SBA has published an updated sample report.

Independent Auditors' Report

The Board of Directors of [Licensee]
or
The General Partner(s) and Limited Partners of [Licensee]

We have audited the statement of financial position of [Licensee] as of [closing date of fiscal year] and the related statements of operations realized, cash flows, and [stockholders' equity] [partners' capital] for the year then ended included in SBA Form 468. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note x, the investment securities included in the financial statements have been valued by the [board of directors] [general partners] using valuation criteria applicable to the licensee. These criteria were established in accordance with section 310(d)(2) of the Small Business Investment Act of 1958, as amended. **[NOTE: The remainder of this paragraph is not required, but may be included at the discretion of the auditor.]** Such investment securities have been valued at $XXXXX (X percent of net assets), including securities valued at $YYYYY whose values have been estimated by the [board of directors] [general partner(s)] in the absence of readily ascertainable market values. We have reviewed the procedures used by the [directors] [general partner(s)] in preparing the valuations of investment securities and have inspected the underlying documentation, and in the circumstances we believe the procedures are reasonable and the documentation appropriate. However, in the case of those securities with no readily ascertainable market value, because of the inherent uncertainty of valuation, the [board of directors'] [general partner(s)'] estimate of values may differ significantly from the values that would have been used had a ready market existed for the securities and the differences could be material.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Licensee] as of [closing date of fiscal year], and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in the schedules of retained earnings available for distribution and of regulatory and leverageable capital, schedules of commitments and guarantees, and schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

C. Access to Accountants' Working Papers

In its discretion, SBA may assign its examiners or other personnel to review the accountant's working papers. The audit engagement agreement between the Licensee and the IPA must provide that the accountant's working papers will be made available for review upon request of the SBA (see 13 CFR 107.691).

D. Accountants' Responsibility for Valuations

i. The investment portfolios of virtually all SBICs contain nonmarketable securities, the values of which must be estimated in the absence of readily ascertainable market values. It is the responsibility of the Board of Directors or the General Partner(s) to estimate the value of such securities in good faith.

ii. The IPA does not act as an appraiser for security values estimated by the Board of Directors or General Partner(s), and is not expected to perform an audit of the portfolio concerns. The IPA's audit procedures with respect to a Licensee's portfolio valuations must address the following questions:

(1) Does the Licensee have a written valuation policy that has been approved by SBA?

(2) Do the Licensee's valuations of its portfolio concerns reflect consistent adherence to its valuation policy?

(3) Has the Licensee documented the basis for its valuations, and does such documentation indicate that a reasonable analysis of available information has been performed?

iii. SBA requirements concerning portfolio valuations are set forth in its "Valuation Guidelines for SBICs." These guidelines contain recommended valuation techniques for securities of various types, as well as requirements concerning the adoption of a written valuation policy, frequency of valuation, and documentation. A Licensee has the option of adopting the model valuation policy included in the guidelines or obtaining SBA approval of an alternative valuation policy (see 13 CFR 107.503).

iv. In addition to the SBA valuation requirements, IPAs may also wish to review SEC Accounting Series Release No. 118 (section 404.03, "Codification of Financial Reporting Policies").

v. The IPA must test a sufficient number of valuations to support an opinion. Testing of valuations representing less than 50 percent of the value of the entire portfolio is presumed to be insufficient to support an opinion.

vi. If the audit discloses that the valuation procedures are inadequate, unreasonable or inconsistent with the Licensee's valuation policy, or that the underlying documentation does not adequately support the valuations, the IPA's opinion must be modified to indicate a lack of conformity with generally accepted accounting principles. The opinion may be qualified (using the phrase "except for") or, depending upon the possibility of a material misstatement, the accountant may determine that an adverse opinion is appropriate.

E. Audit Adjustments

All audit adjustments must be entered in the Licensee's records before issuance of the Independent Auditors' Report. As a result, the financial statements accompanying the report will agree with the books as adjusted as of the statement date, giving consideration to reclassification of account balances for report purposes. If the adjustments are not so recorded on the Licensee's books, the IPA's report must include a statement to this effect.

F. Reporting Irregularities

i. *Reporting Irregularities and Illegal Acts to SBA.* An independent public accountant who detects irregularities or illegal acts individually or collectively material to the financial statements, or irregularities or illegal acts relative to SBA programs whether or not material, must advise management in writing. Within one business day following receipt of the auditor's report, management must notify, in writing, the Associate Administrator for Investment, Investment Division, 409 Third Street, SW, Washington, DC 20416. Management, in advising SBA, must, to the extent practicable, describe the irregularities or illegal acts and their effects on the financial statements and SBA programs. Auditors are responsible for determining whether management reported the irregularities or illegal acts to SBA. If the auditor does not receive a copy of management's notice to SBA within the one business day notification period, then by the end of the next business day the auditor must furnish directly to SBA, at the address listed above, a copy of the report given to management.

ii. *Reporting Internal Control Structure Reportable Conditions.* Reportable conditions in an SBIC's internal control structure must be reported to SBIC management in writing and SBIC management must immediately transmit this auditor's report to SBA. Reportable conditions and the manner of reporting such conditions are addressed in AU Section 325, *Codification of Statements on Auditing Standards*, issued by the American Institute of Certified Public Accountants.

G. Detecting Noncompliance with Laws and Regulations

i. Audits of SBICs are performed in accordance with generally accepted auditing standards. These standards require IPAs to design audit procedures which will provide reasonable assurance of detecting instances of noncompliance with applicable laws and regulations that could have a material effect on Licensees' financial statements.

ii. A GAAS audit is neither a substitute for nor a duplication of the examination of an SBIC performed by SBA's examiners. The purpose of such examinations is to provide a comprehensive evaluation of the Licensee's compliance with laws and regulations governing the SBIC program. In contrast, IPAs perform audits in which compliance issues are viewed in the context of the possible effects of noncompliance on the financial statements.

iii. As part of the audit planning process, all IPAs are responsible for reviewing and becoming familiar with the laws and regulations applicable to SBICs. Auditors must have sufficient knowledge of such laws and regulations to be able to design appropriate audit procedures for an SBIC, and to recognize instances of noncompliance which may become evident in the course of performing such procedures. The laws and regulations governing the SBIC program include the following:

1. *Small Business Investment Act of 1958, as amended (Act).* The Act provides a statement of the public purpose of the SBIC program and establishes the legislative framework upon which the regulations are based. Licensees are permitted to engage in activities contemplated by the Act, and in no other activities. Provisions of the Act governing SBICs are found primarily in Title III.

2. *Code of Federal Regulations, title 13, parts 107 and 121 (13 CFR 107 and 121).* Part 107 contains the regulations governing the SBIC program, and auditors should become familiar with this part in its entirety. Part 121 contains small business size regulations which apply to various SBA programs; particular attention should be given to the definition of "Affiliation" (13 CFR 121.103) and the SBIC size standard (13 CFR 121.301(c)).

iv. In addition to the Act and regulations themselves, SBA has various materials available which may assist auditors in developing an overall understanding of the SBIC program. These include basic informational brochures about the program; the preambles to final rules published in the Federal Register, which provide rationales for and interpretations of new regulations; and a regulatory compliance checklist for small business financings.

v. Preparation for an SBIC audit should include a review of AICPA Statement on Auditing Standards No. 54 (SAS 54). This statement discusses the consideration an auditor should give to the possibility of illegal acts by a client in a financial statement audit performed in accordance with GAAS. As defined in the statement, "illegal acts" include violations of laws or government regulations.

vi. In addition to any specific audit procedures deemed necessary which may relate to compliance issues, the IPA must obtain representation from the Licensee regarding its lawful operation as contemplated by the Act.

V. Accounting Policies and Procedures

A. Generally Accepted Accounting Principles

i. As a general rule, Licensees must follow generally accepted accounting principles (GAAP) as promulgated by the Financial Accounting Standards Board, its predecessors (such as the Accounting Principles Board), and the AICPA. Sources of information concerning specialized accounting and reporting principles for investment companies include the AICPA publication, "Audits of Investment Companies", as well as this accounting guide. In the event of any conflict between SBA's accounting guidelines and other sources, the guidelines shall govern for purposes of financial reporting to SBA.

ii. Licensees and their IPAs should be aware that some of the specialized GAAP promulgated for investment companies is oriented toward companies that do not share many of the characteristics of SBICs. Appendix A of "Audits of Investment Companies" discusses some of the distinctive characteristics of venture capital companies in general, and of SBICs in particular, relative to other types of investment companies. These characteristics may include active rather than passive investment, illiquid portfolios with no public market, relatively long holding periods for investments, and the existence of significant debt in the case of SBICs.

iii. SBA, as the regulator and major creditor of the SBIC industry, has tailored Form 468 to provide financial information in a format that will satisfy SBA's analytical and regulatory requirements. An IPA must exercise professional judgment in determining whether reporting on Form 468 requires a material departure from GAAP for a particular SBIC. If such a departure exists, the Independent Auditors' Report may be modified accordingly.

B. Accrual Basis of Accounting

Books of account must be maintained on an accrual basis. All accruals are to be entered in the records and posted at the end of the fiscal year, and as of the closing dates of any other fiscal periods to be covered by interim or special financial reports to SBA.

C. Reporting Entity

i. For most SBICs, the reporting entity is the Licensee only. Application of this general rule and certain exceptions to it are discussed in this paragraph C.

ii. *Investment in Management Services Company*. A Licensee is permitted to organize a wholly owned corporation solely to provide management services to small businesses. In this case, financial reports submitted to SBA must reflect the consolidated results of the Licensee and its subsidiary.

iii. *Investment in special purpose investment subsidiary*. Subject to SBA's prior written approval, some Licensees may be permitted to form one or more wholly owned corporations to make and hold certain investments in portfolio concerns (see 13 CFR 107.720(b)(3)). Financial reports submitted to SBA must reflect the consolidated results of the Licensee and any such subsidiaries.

iv. *Investment in Section 301(d) Licensee*. Under 13 CFR 107.120, a Section 301(d) Licensee may be licensed to operate as the subsidiary of one or more Licensee companies ("Participant Licensees"), with or without non-Licensee participation. Each Participant Licensee must own at least 20 percent of the voting securities of the Section 301(d) Licensee. Such an investment must be reported on the equity method, under the caption "Investment in 301(d) Licensee" on the Statement of Financial Position. SBA recognizes that this accounting treatment may constitute a departure from GAAP if the Participant Licensee is the majority owner of the Section 301(d) Licensee. The independent public accountant may wish to express a qualified opinion if the departure is considered material.

iv. *Temporary Control*. Under certain circumstances, as described in 13 CFR 107.865, a Licensee may *temporarily* own more than a 50 percent interest in a small business concern. These investments must be classified in the appropriate category of Loans and Investments on the Statement of Financial Position (generally, this will be "Operating Concerns Acquired"), and must be reported at their fair value. This treatment is consistent with FASB Statement No. 94, which provides an exception to the general rule of consolidating majority-owned subsidiaries when control is likely to be temporary.

D. Fair Value of Loans and Investments

i. In accordance with generally accepted accounting principles for investment companies, SBICs must report Loans and Investments (presented on lines 1 through 10 of the Statement of Financial Position, page 2 of SBA Form 468) at fair value. To the extent possible, fair value must be represented by quoted market prices (appropriately discounted for such factors as restrictions on marketability or large holdings relative to daily trading volume). In the absence of quoted market prices, fair value will be an estimate determined in good faith by the Board of Directors or General Partner(s), based on the application of a valuation policy approved by SBA.

ii. SBA requirements concerning portfolio valuation are set forth in 13 CFR 107.503 and 107.650, supplemented by "Valuation Guidelines for SBICs". Licensees may adopt the model valuation policy included in the guidelines or submit an alternative policy to SBA for approval. In addition to valuation policy, the regulations and valuation guidelines also set forth requirements concerning frequency of valuation, documentation, responsibility for valuations and reporting of valuations to SBA.

iii. *Accounting considerations.* Licensees must maintain separate general ledger accounts for the original cost of Loans and Investments and any valuation adjustments. Valuation adjustments must be in the form of unrealized appreciation or depreciation, respectively representing valuations above or below cost. The sum of cost and unrealized appreciation or depreciation represents fair value.

iv. Unrealized appreciation may be recognized on equity investments and debt investments which contain equity features, such as options or warrants. Recognition of unrealized appreciation on loans is not permitted under SBA's valuation guidelines.

v. A general allowance for losses on Loans and Investments is not utilized in fair value accounting. Rather, the Licensee's Board of Directors or General Partner(s) must value Loans and Investments individually as of the financial statement date. This requirement applies equally to Licensees engaged in equity investing and in lending. A Licensee which is primarily engaged in lending, however, may also identify additional anticipated losses on the basis of its portfolio history, industry experience, or other relevant factors; such amounts may be reported in the Statement of Financial Position of SBA Form 468 as additional unrealized depreciation not associated with specific portfolio assets.

vi. An appropriate tax provision must be established for net unrealized appreciation on securities held by taxable corporate Licensees. There may also be circumstances in which a tax benefit for net unrealized depreciation should be recognized, depending on the likelihood of realization. Such a provision or benefit must be determined in accordance with FASB Statement No. 109, "Accounting for Income Taxes".

E. Interest Income

i. Interest income must be accrued according to the terms of interest bearing loans and investments. Premiums or discounts associated with debt instruments represent adjustments to interest income which must be amortized over the stated life of the debt instrument.

ii. *Collection in Doubt.* Interest income cannot be recognized if collection is doubtful. Licensees may choose to handle doubtful interest receivable in either of two ways: (1) make no entry to accrue interest in the regular general ledger accounts and track interest due in a memorandum account; or (2) accrue the interest and provide a 100 percent reserve (debit provision for loss on receivables, credit allowance for uncollectible interest receivable). The method used by the Licensee must be disclosed in the footnote to the financial statements summarizing significant accounting policies.

iii. Collection of interest is ***presumed*** to be in doubt when either or both of the following conditions occur: (1) the small concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern; or (2) the small concern is in default more than 120 days to the Licensee. Licensees may rebut this presumption by providing evidence of collectibility satisfactory to SBA. Such evidence may include the existence of collateral, the value of which has been verified through an appraisal by an independent professional appraiser acceptable to SBA. Such an appraisal must be at liquidation value (net of liquidation costs) and shall have been performed within the 12 months immediately preceding the valuation date. In considering whether collateral provides an appropriate basis for valuations, SBA will consider the nature of a Licensee's claim on the collateral (for example, whether other parties have security interests senior to the Licensee's, or whether the Licensee's security interest in an asset is perfected). SBA will also review the Licensee's operating history for evidence concerning its willingness and ability to pursue available remedies (including foreclosure) in default situations.

iv. The two conditions cited in the preceding paragraph are not the only possible indicators of a collection problem. Even if neither condition is present, other circumstances may cause the Board of Directors or General Partner(s) to conclude that collection is in doubt.

v. When interest income is not being recorded on a loan or debt security, the Licensee must so note in its Annual Financial Report on Form 468. The note should include the date at which interest accrual was discontinued. In addition, the total amount of interest not accrued because collection is in doubt must be disclosed in a footnote to the financial statements.

vi. When the accrual of interest is discontinued, the full amount of any interest receivable recorded in prior periods must be either reversed or fully reserved, unless the Licensee can provide evidence of collectibility satisfactory to SBA.

F. Dividend Income

i. Dividend income from investments in common or preferred stock is normally recognized as of the date of record (the date at which official ownership of shares is determined for the purpose of paying the dividend). Dividend income cannot be accrued in the absence of a dividend declaration by the small business's board of directors. This treatment applies to all dividends, including dividends on redeemable preferred stock or similar securities with some debt-like characteristics.

ii. Any cash distribution that is identified as a return of capital is not recognized as income. Such distributions are a reduction in the cost basis of an investment.

iii. Stock splits and stock dividends that have no effect on the relative ownership percentages of shareholders do not result in the recognition of income. The cost of the shares previously held should be allocated, on a rational basis, to the number of shares held after the split or dividend. Similarly, when stock rights are received, a portion of the cost basis of the related investment may be allocated to the rights.

iv. Dividends in kind (generally dividends received in the form of shares of a portfolio concern) that increase a Licensee's proportionate ownership interest are recorded as income at the fair value of the property received. Such income must be classified as Non-Cash Gains/Income in the Statement of Financial Position of SBA Form 468. If the Licensee has a choice between a dividend in cash or in kind, and chooses to receive an in-kind dividend, the fair value is deemed to be the amount of cash that could have been received.

G. Profit Participation in Small Concerns

Participation in the profits of a debt-financed small business concern represents income to the Licensee. For regulatory purposes, any profits received must be included in the calculation of the Cost of Money unless the profit participation satisfies the criteria for an excludable one-time "bonus" as described in 13 CFR 107.855(i).

H. Fees Charged to Small Concerns

i. Nonrefundable fees charged by SBICs in connection with the origination of loans, net of related direct loan origination costs, generally should be deferred and amortized over the term of the financing. Alternatively, Licensees may recognize such fees (net of related costs) as income in the period in which the loan is originated if such treatment is appropriate under GAAP. Licensees should be aware of the provisions set forth in 13 CFR 107.855 and 107.860 concerning permissible fees and expense reimbursements, and the extent to which such items may be excluded from the Cost of Money.

ii. If a Licensee has made a commitment for a financing which does not take place, any "break-up fee" to which the Licensee is contractually entitled is recognized as income when due (see 13 CFR 107.860(g)).

I. Accounting for Investments in Flow-Through Concerns

i. SBICs are permitted to invest in small businesses organized as flow-through entities. This category of investments includes any entity that passes through its income and losses to its owners and is not taxed at the entity level, such as a limited partnership or limited liability company.

ii. Investors in such entities typically use the equity method, under which (1) original cost is adjusted at the end of each accounting period to recognize the investor's share of the income or losses of the investee; (2) the amount of the adjustment is included in the net income of the investor; and (3) distributions received from the investee reduce the carrying amount of the investment. However, this method is not appropriate for investors such as SBICs, which account for their investments at fair value.

iii. Instead of using the equity method, Licensees with portfolio investments in flow-through entities must report these investments at their fair value in the Statement of Financial Position, with the difference between cost and value reflected as unrealized appreciation or depreciation. Any income or loss allocated to the Licensee may, if appropriate, be a factor in the Licensee's estimate of the investment's fair value, but such allocations are not recognized as income or loss in the Statement of Operations Realized; furthermore, the Licensee's cost basis is not adjusted to reflect such allocations. Licensees are to recognize income or loss when realized upon disposition or liquidation of all or part of their ownership interest. Income is also recognized when the Licensee receives a distribution from the investee, as long as the distribution is not a return of capital. Returns of capital do not result in the recognition of income, but are treated as a reduction of the Licensee's cost basis.

iv. Licensees that have previously used the equity method to account for their investments in flow-through entities, based on previous SBIC accounting guidelines issued by SBA, may contact SBA to discuss whether it would be appropriate to implement a change of method for these investments.

J. Equity Method of Accounting

i. The only type of investment that a Licensee must account for under the equity method is an investment in the common stock of a Section 301(d) Licensee, as permitted under 13 CFR 107.120. Since a Licensee investing in a Section 301(d) Licensee is required to have an ownership interest of at least 20 percent, use of the equity method will normally be appropriate. Under the equity method, original cost is adjusted at the end of each accounting period to recognize the investor's share of earnings or losses of the investee. The amount of the adjustment is included in the net income of the investor. Dividends or distributions received from an investee reduce the carrying amount of the investment.

ii. Licensees should ***not*** use the equity method to account for investments in the common stock of small business concerns, even if a Licensee's ownership interest exceeds 20 percent. SBICs, whether or not registered under the Investment Company Act of 1940, are exempt from the usual requirements concerning use of the equity method because they account for investments at fair value (see APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", paragraph 2).

K. Accounting for Income Taxes

i. In February 1992, the FASB issued Statement No. 109, "Accounting for Income Taxes", which established the following basic principles to be applied in accounting for income taxes at the date of financial statements:

(1) A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current period.

(2) A deferred tax liability is recognized for the estimated future tax effects of "taxable temporary differences" (events which will result in future taxes payable).

(3) A deferred tax asset is recognized for the estimated future tax effects of "deductible temporary differences" (events which will result in future tax savings), operating loss carryforwards, and tax credit carryforwards.

(4) A valuation allowance is recognized to reduce the deferred tax asset to the extent that tax benefits are not expected to be realized.

(5) Both current and deferred tax liabilities and assets are based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

ii. The ability to recognize deferred tax assets under certain circumstances represents a significant change from earlier pronouncements. Licensees which recognize deferred tax assets should take careful note of the requirements of Statement No. 109 in determining whether it is "more likely than not" that such assets will be realized. Generally, application of the "more likely than not" standard means that when "negative evidence" exists which suggests that benefits will not be realized, there must be sufficient "positive evidence" to outweigh it; otherwise, a valuation allowance is required.

iii. Because SBICs must report their Loans and Investments at value, many Licensees will find it necessary to apply the criteria of Statement No. 109 in determining whether to recognize deferred tax liabilities or assets reflecting the estimated future tax effects of unrealized gains or losses. Both unrealized gains and unrealized losses are temporary differences as defined in the statement. Previously, SBA required Licensees with net unrealized appreciation to record a provision for estimated future taxes, but did not permit Licensees with net unrealized depreciation to record a corresponding benefit. In accordance with current GAAP, such a benefit may now be recorded.

iv. The reporting of unrealized gains and losses and the related tax effects must be consistent. Since SBIC program accounting guidelines require that changes in unrealized appreciation or depreciation be excluded from net income (that is, they do not appear in the statement of operations realized), it follows that the related tax effects must be similarly excluded. Both elements, however, are included in "comprehensive income" (that is, they affect the equity of Licensees). This is reflected in the presentation of net unrealized appreciation or depreciation, net of estimated future tax effects, as Unrealized Gain (Loss) on Securities Held in the Capital section of the Statement of Financial Position.

L. Realized Gain (Loss) on Investments

i. Realized gain or loss on investments must be recorded by Licensees in accordance with generally accepted accounting principles.

ii. Capital gains realized on the sale of securities must be recognized provided that collection of proceeds is reasonably assured and the earnings process is complete. For the earnings process to be considered complete, the Licensee must have no further obligation related to the transaction. Any transaction with recourse upon the Licensee or involving any understanding, agreement, option, privilege, or other rights to repurchase by and/or resell to the Licensee is not considered a final transaction. Transactions which do not meet the criteria in this paragraph L for current recognition of gains must be accounted for using an appropriate alternate method, such as the installment method or the cost recovery method. Under the installment method, a portion of the gain is recognized with each installment payment received; under the cost recovery method, no gain is recognized until the full amount of the seller's cost has been collected.

iii. Capital losses may arise not only from sales, but also from write-offs or charge-offs of securities held (the two terms are generally used synonymously in these guidelines; in contrast, the term "write-down" refers to the recording of unrealized depreciation). Write-offs may be either full or partial. Writing off an investment, in comparison with recording unrealized depreciation, represents a stronger judgment concerning loss of value. However, it is not necessary to have a definitive event (such as bankruptcy of the small business concern) in order to write off an investment. Generally accepted accounting principles call for the recognition of loss when it becomes evident that previously recognized future economic benefits of an asset have been reduced or eliminated.

iv. A Licensee may also realize capital gains or losses in connection with the exchange or non-reciprocal transfer of securities. The treatment of such transactions is governed by APB Opinion No. 29, "Accounting for Nonmonetary Transactions", and is discussed in paragraph M of this section V.

vi. When a gain or loss is realized, whether as a result of the sale, other disposal or write-off of an asset, any previously recorded unrealized appreciation or depreciation associated with the asset must be reversed.

vii. *Non-cash Gains.* When a Licensee realizes capital gains, but does not receive cash at the time of the transaction, SBA requires Licensees to segregate such "Non-cash Gains" from other components of Undistributed Realized Earnings, until such time as any non-cash assets received are converted to cash. Non-cash Gains are realized earnings that have been recognized in the Licensee's Statement of Operations. They are segregated in the Statement of Financial Position only because they are subject to certain restrictions under SBA regulations, primarily concerning distributions. In effect, Non-cash Gains can be considered a type of restricted retained earnings. For further information on Non-cash Gains, see "Undistributed Realized Earnings" in paragraph X of this section V.

M. Nonmonetary Transactions

i. Licensees should follow APB Opinion No. 29 to the extent applicable when accounting for nonmonetary transactions. Such transactions include both reciprocal and non-reciprocal transfers of nonmonetary assets or liabilities between the Licensee and another entity or person, or between the Licensee and its stockholders or partners. The cost of an asset acquired in a non-monetary transaction is the fair value of the asset relinquished to obtain it, and a gain or loss should be recognized on the exchange. Any gain recognized must be reported on SBA Form 468 as a Non-cash Gain.

ii. Nonmonetary transactions in which the Licensee exchanges securities or assets for other securities or assets will result in the realization of gain or loss for financial reporting purposes, regardless of whether such transactions are taxable or non-taxable exchanges.

iii. Fair value of a nonmonetary asset transferred to or from a Licensee should be determined by referring to estimated realizable values in cash transactions of the same or similar quoted market prices, independent appraisals, estimated fair values of assets, or other available evidence.

iv. In cases where the values are not clearly determinable, assets received will have the same accounting basis as the assets transferred.

v. *Dividends In Kind and Spin-offs.* Dividends or other distributions in kind, consisting of shares of a portfolio concern or other securities, are nonreciprocal transfers of non-monetary assets from a Licensee to its owners. Such transfers must be reported at the fair value of the assets distributed.

N. Interest, Notes and Accounts Receivable

i. *Interest Receivable.* In reporting interest receivable, Licensees should make certain that amounts are properly classified between current and noncurrent assets. Current assets are those providing benefits that are expected to be realized within the next fiscal year.

ii. Interest receivable is reported net of an allowance for uncollectible amounts, which represents a conservative estimate of probable losses. The allowance must be adjusted, at a minimum, as of the end of the fiscal year. Interim adjustment to reflect changes in the status of receivables is strongly encouraged. See paragraph E ("Interest Income") of this section V for guidelines to be used by SBICs in evaluating the collectibility of interest income.

iii. Expense is recognized whenever the allowance for uncollectible amounts is adjusted to reflect a change in the valuation of interest receivable. An actual write-off of interest receivable is normally recorded as a reduction of the receivable and a corresponding reduction of the allowance, and does not result in the recognition of expense.

iv. The total expense recognized during a fiscal year with respect to uncollectible interest receivable appears on Form 468 in the Statement of Operations Realized, under the caption, "Provision for Losses on Accounts Receivable."

v. Requirements concerning the recording of interest receivable and the related interest income appear in these guidelines under the heading, "Interest Income."

vi. *Notes and Accounts Receivable.* The accounting treatment of notes receivable and accounts receivable is governed by the same rules which apply to interest receivable, as previously described in this paragraph N.

vii. Notes Receivable represents the unpaid balance of miscellaneous notes which do not fit into any category of Loans and Investments. It does not include notes representing amounts due from purchasers of assets acquired in liquidation of portfolio securities, which are presented separately in the Loans and Investments section of the Statement of Financial Position on Form 468.

viii. Accounts Receivable represents amounts due on account, such as for management consulting, appraisal, or other services rendered. Accounts Receivable also includes accrued fees for services rendered in connection with participations or joint financings and accrued fees receivable from small concerns.

O. Compensating Balances

i. In those instances where idle funds are encumbered or are required to be maintained at a financial institution as compensating balances in connection with debt of the SBIC, the nature of the encumbrance and the terms of any applicable agreements must be disclosed in a footnote to the financial statements.

ii. Depending upon the specific terms, it may be necessary to classify idle funds subject to a compensating balance agreement as non-current assets.

P. Organization Costs

i. Organization costs are incurred in the formation of an SBIC and may include such items as legal fees, incorporation and various other fees imposed by states, and promotional expenditures. Until the issuance by the AICPA of Statement of Position 98-5 (April 3, 1998), organization costs were capitalized and amortized over a period of 5 years. However, the Statement of Position now requires that organization costs be expensed as they are incurred. SBA is conforming these accounting guidelines to the Statement of Position, which is effective for fiscal years beginning after December 15, 1998 (earlier application is encouraged in fiscal years for which financial statements have not been issued).

ii. If an SBIC incurs organization costs that SBA deems to be unreasonable or excessive, such costs must be excluded from Regulatory Capital.

iii. Operating losses incurred by a company prior to licensing as an SBIC are not considered organization costs and cannot be capitalized.

Q. Contingent Liabilities

i. Licensees must accrue or disclose contingent liabilities, as appropriate, in accordance with the requirements of FASB Statement No. 5. Such requirements vary depending upon whether the likelihood of realizing a loss is evaluated as "probable", "reasonably possible", or "remote". Contingent liabilities may arise from such transactions or events as the issuance of guarantees, pending litigation, and the sale of portfolio interests with recourse.

ii. In addition to the reporting requirements of FASB Statement No. 5, Licensees and their IPAs should be familiar with SBA's requirements for reporting of certain contingencies. These additional requirements include the completion of the Schedule of Guarantees (included in SBA Form 468) by Licensees which have guaranteed the obligations of small concerns and the filing of a litigation report by Licensees which become a party to litigation (see 13 CFR 107.660(c)).

iii. A Licensee which has sold portfolio securities (or any interest therein) on a recourse basis should be aware that any amounts for which it may be contingently liable must be treated as investments in small concerns for overline purposes.

R. Transactions with Related Parties

i. Licensees must disclose material transactions with related parties in accordance with FASB Statement No. 57. In applying the requirements of this pronouncement to SBIC financial statements, a Licensee must consider the term "related party" to encompass any person or entity that is an Associate as defined in 13 CFR 107.50. Footnote disclosures of related party transactions must include the name of the related party as well as the nature of the relationship.

ii. Licensees and their IPAs should be aware that certain transactions involving Associates are either prohibited by SBA regulations or permitted only with SBA's prior written approval. See 13 CFR 107.730 ("Financing which constitute conflicts of interest").

S. Leverage--Debentures Guaranteed or Purchased by SBA

i. SBICs which qualify on the basis of financial soundness and regulatory compliance are eligible to receive long-term leverage in the form of 5-year or 10-year debentures guaranteed (or, in some cases, purchased directly) by SBA. Some Section 301(d) Licensees may have outstanding debentures with an interest rate subsidy of 3 percentage points for the first 5 years of their term. Such subsidized debentures were available to Section 301(d) Licensees prior to October 1, 1996.

ii. Debentures, net of current maturities, must be classified in the financial statements as long-term debt, and must be shown at face value in the Statement of Financial Position of Form 468.

iii. A Licensee seeking to issue debentures must first obtain SBA's conditional commitment to reserve a specific amount of debenture leverage for the Licensee's future use. The Licensee pays a leverage fee to SBA (currently 3 percent of the amount borrowed) and an underwriter's fee (currently 0.5 percent). The leverage fee is paid in two stages: the Licensee pays 1 percent of the committed amount when the commitment is received and pays 2 percent of the amount of each takedown as it draws the funds.

iv. Fees associated with the issuance of debentures must be capitalized and amortized over the life of the debenture. Generally accepted accounting principles normally require that debt be reported net of the unamortized portion of related fees; on Form 468, however, Licensees should report the unamortized fees as an asset and the debentures at their gross amount. SBA does not believe that this treatment will constitute a material departure from GAAP for most Licensees.

v. If a leverage commitment from SBA expires without being fully utilized, the Licensee must expense the leverage fees associated with the unused portion.

vi. Debentures are subject to the terms and conditions set forth in SBA regulations. In most respects, debentures incorporate by reference the regulations as amended from time to time. With respect to events of default, however, debentures incorporate those events and remedies set forth in the regulations at the date of issue. Thus, debentures issued at different times may be subject to different default provisions. Events of default include both financial and regulatory conditions, which may result in the entire indebtedness of the Licensee being declared due and payable.

vii. If SBA decides to demand payment in accordance with the acceleration provisions of the debentures, such demand ordinarily will be presented in a letter specifying the violations that have occurred.

T. Leverage--Participating Securities Guaranteed by SBA

i. Participating Securities are redeemable preferred equity-type securities. Issuers are required to make equity investments in an amount at least equal to the amount of Participating Securities issued (see the defined term "Equity Capital Investments" in 13 CFR 107.50 for the specific categories of investments permitted). The structure, terms and conditions of the Participating Security are set forth in detail in 13 CFR 107.1500 through 107.1590.

ii. The Act authorizes SBA to guarantee Participating Securities issued in the form of limited partnership interests, preferred stock, or debentures with interest payable only to the extent of earnings. Currently, the only form of Participating Security for which documentation has been created is a limited partnership interest to be held by SBA. Other forms will be made available in the future as required to meet the needs of Licensees.

iii. The Participating Security has the following significant features:

(1) Licensees issue Participating Securities to SBA, which in turn assigns certain of its interests in such securities to a pool. Investors (known as "certificate holders") then purchase interests in the pool through a public offering. Each Licensee issuing Participating Securities pays a cumulative preferred return ("Prioritized Payments") which is passed through to the certificate holders, but such payments are contingent upon the profitability of the issuer. Any Prioritized Payments that exceed the cumulative earnings of a Licensee will be paid to the certificate holders by SBA as guarantor. The Licensee, however, will be ineligible to make any other profit distributions until it has paid all of its Prioritized Payments (including reimbursement of amounts previously advanced on its behalf by SBA).

(2) Licensees that are unable to pay Prioritized Payments in full as of the end of any fiscal year must perform a compounding calculation on the unpaid balance in accordance with 107.1520(f). The amounts computed under this section (“Adjustments” to Prioritized Payments) are payable under the same terms and conditions as the Prioritized Payments themselves. In addition, Participating Securities issued after October 1, 1996 (except for those issued pursuant to a leverage commitment issued by SBA before that date) are subject to an additional charge of 1 percent per annum, payable to SBA under the same terms and conditions as Prioritized Payments.

(3) In consideration for SBA's guarantee, profitable Licensees must pay a percentage of earnings (after Prioritized Payments) to SBA as "Profit Participation". SBA's profit percentage (the "Profit Participation Rate") depends upon the Licensee's ratio of Participating Securities issued to Leverageable Capital, as well as the interest rate on 10-year Treasury securities at the time each Participating Security was issued. The Profit Participation Rate formula is in 13 CFR 107.1530.

(4) Except for Prioritized Payments, SBA (the "Preferred Limited Partner") and the Licensee's private limited partners receive distributions at the same time, allocated in accordance with formulas established by law. SBA will apply its share of such distributions either as Profit Participation or as a redemption of Participating Securities in accordance with 13 CFR 107.1550 through 107.1570.

(5) The Participating Securities have a 10-year term, at the end of which redemption is mandatory. Participating Securities can be redeemed without penalty, in whole or in part, at any time prior to the scheduled maturity date. Under certain circumstances, early redemption of Participating Securities is mandatory (see 13 CFR 107.1560).

(6) In the event of the liquidation of a Licensee, the following will be senior in priority to all other equity interests issued by the Licensee at any time:

(a) Any outstanding Participating Securities;

(b) Any Prioritized Payments, Adjustments, and additional 1 percent charges which the Licensee has sufficient profits to pay (see the computation of "Earned Prioritized Payments" and earned Adjustments and Charges in 13 CFR 107.1520); and

(c) Any Profit Participation allocated to SBA under 13 CFR 107.1530.

iv. Participating Securities are reported in a "Redeemable Securities" section of the Statement of Financial Position on SBA Form 468. The amount of Participating Securities issued represents the capital contribution of SBA, the Preferred Limited Partner. Prioritized Payments and Profit Participation both represent an allocation of profit to SBA, rather than an expense of the Licensee. For purposes of reporting to SBA on Form 468, Prioritized Payments and Profit Participation should be allocated to SBA only on the basis of realized profits; unrealized gain on securities held should remain unallocated in the Capital section of the Statements of Financial Position.

v. Although Participating Securities have some debt-like characteristics, they are generally considered to be equity-type securities. As a result, the leverage fees paid by issuers (as described in paragraph S.iii. of this section) may be considered analogous to partnership syndication costs, which would be offset against the partners' capital under GAAP. However, SBA has determined that Participating Securities issuers are entitled to deduct these costs when performing the required profit and distribution computations. For this purpose, under 13 CFR 107.1510(d)(1), Licensees are to treat such costs as being capitalized and amortized on a straight-line basis over not less than 5 years. Licensees may report leverage fees in this manner on Form 468, or they may follow a GAAP presentation and adjust their Participating Securities computations accordingly. The footnotes to the financial statements should clearly indicate the method used.

vi. In a footnote to the financial statements, the Licensee must provide a description of the terms of the Participating Securities issued, including disclosure of the mandatory redemption date. If there are any "accumulated" Prioritized Payments (representing a contingency for amounts paid to certificate holders by SBA on the Licensee's behalf, which the Licensee must repay as profits are realized), a footnote must disclose the dollar amount of the accumulation (including any Adjustments and the additional 1 percent charge) for the current fiscal period and the aggregate amount accumulated.

vii. For companies licensed after March 31, 1993, the obligation to pay Prioritized Payments and Profit Participation is conditioned upon the profitability of the Licensee as a whole. Those licensed earlier, however, may request SBA's approval to exclude profits attributable to portfolio assets in existence as of March 31, 1993.

viii. Because of the complexity of the required profit and distribution computations, all Licensees issuing Participating Securities must use SBA-provided software to perform such computations.

U. Preferred Stock Leverage for Section 301(d) Licensees

i. *Four Percent Preferred Stock.* Prior to October 1, 1996, Section 301(d) Licensees were eligible to receive long-term leverage by selling 4 percent redeemable preferred stock directly to SBA (Section 301(d) Licensees organized as limited partnerships could issue equivalent securities in the form of a preferred limited partnership interest, but none actually did so). Any such securities still outstanding must be redeemed not later than 15 years from the date of issuance, at which time any unpaid portion of the preferred and cumulative 4 percent dividend due to SBA must also be paid. No distributions may be made to any investor other than SBA unless the Licensee is current on all amounts due SBA.

ii. Like Participating Securities, 4 percent preferred stock is reported in the "Redeemable Securities" section of the Statement of Financial Position on SBA Form 468. Unlike Participating Securities, however, which specifically provide for the extinguishment of any obligation to pay Prioritized Payments in excess of the issuer's profits, the statute which authorized 4 percent preferred stock did not set forth any circumstances in which the 4 percent dividend would be extinguished.

iii. The initial carrying amount of 4 percent preferred stock is the purchase price paid by SBA at the date of issue (which must be equal to the par value). At the end of each accounting period, the carrying amount must be increased by the amount of any 4 percent dividends not currently paid or declared. A breakdown of the total carrying amount, showing separately the purchase price of 4 percent preferred stock and the accrued 4 percent dividends in arrears, is reported on the Statement of Financial Position.

iv. Cumulative 4 percent dividends in arrears must be recorded as a charge against Undistributed Net Realized Earnings. For some Section 301(d) Licensees, these amounts may exceed Undistributed Net Realized Earnings. Ordinarily, a company in these circumstances would reduce paid-in capital by the amount of the excess. Because such treatment would reduce Regulatory Capital, however, it could result in certain unintended regulatory compliance problems for Licensees (such as overline violations). Therefore, on SBA Form 468, Licensees must report all 4 percent dividends in arrears as a reduction of Undistributed Net Realized Earnings, even though this treatment may result in a deficit, and must not reduce paid-in capital.

v. Because Section 301(d) Licensees must charge the 4 percent dividend to Undistributed Net Realized Earnings whether it is paid or not, any unpaid amounts must be added back in order to determine a Licensee's Retained Earnings Available for Distribution. Unpaid 4 percent dividends must be paid in full from Retained Earnings Available for Distribution before any other distributions can be made.

vi. In a footnote to the financial statements, the Licensee must provide a description of the terms of the preferred stock issue, including disclosure of the mandatory redemption date. If there are 4 percent dividends in arrears, a footnote must provide the dollar amount of the arrearage for the current fiscal period, the aggregate amount in arrears, and the number of periods in arrears.

vii. *Three Percent Preferred Stock.* Before November 21, 1989, corporate Section 301(d) Licensees were eligible to receive long-term leverage by issuing 3 percent cumulative preferred stock to SBA at par value. Three percent preferred stock has no mandatory redemption date and is classified as equity for financial reporting purposes. However, it is not treated as Regulatory or Leverageable Capital for any purpose.

viii. No dividends may be paid to any investor other than SBA unless the Licensee is current on all 3 percent preferred dividends due SBA. The amount of any preferred dividends in arrears must be disclosed in a footnote to the financial statements.

ix. *Three Percent Preferred Stock Repurchase Program.* On April 1, 1994, SBA published a notice in the Federal Register announcing the implementation of a program under which Section 301(d) Licensees may apply to repurchase their outstanding 3 percent preferred stock from SBA at a set price of 35 percent of par value. Specific guidelines governing repurchase transactions are set forth in the Federal Register notice and in SBA Policy and Procedural Release #2021, issued June 14, 1994. A Federal Register notice published on July 22, 1997, extended the availability of the Repurchase Program by 4 years to June 14, 2001.

x. SBA provides accounting guidelines governing the repurchase transaction to all participants in the Repurchase Program. Copies of these guidelines are available from the Investment Division upon request.

V. Contributed Capital and Committed Capital

i. In general, "contributed capital" refers to funds contributed to a Licensee by private investors (although such funds may also include "qualified nonprivate funds" from Government sources, in accordance with the definition of Private Capital in 13 CFR 107.230). Although some Licensees may obtain financial assistance through the issuance of equity-type securities purchased or guaranteed by SBA, such securities are reported on Form 468 as SBA leverage rather than as contributed capital. The contributed capital of a corporate Licensee consists of the par value of its capital stock (which may consist of one or more classes of stock) and its aggregate paid-in surplus, excluding Restricted Contributed Capital Surplus obtained through the repurchase of 3 percent preferred stock from SBA. For a partnership Licensee, contributed capital consists of proceeds from the sale of partnership interests to the general partners and the limited partners (other than SBA). For all Licensees, contributed capital must be recorded net of expenses incurred to obtain the capital.

ii. Capital contributed to a Licensee in the form of non-cash assets requires the prior approval of SBA, unless the assets fall into certain specified categories (for example, tangible assets to be currently employed by the Licensee in its operations; see 13 CFR 107.240). Equity securities issued in exchange for non-cash assets will be excluded from a

Licensee's Regulatory Capital until the assets received are converted to cash, unless SBA specifically approves their inclusion.

iii. *Commitments from Investors.* In addition to its contributed capital, a Licensee may have outstanding commitments from individuals or entities to invest additional funds in the Licensee at a future date. Binding commitments from Institutional Investors (as defined in 13 CFR 107.50) are included in the Licensee's Regulatory Capital; the principal effects of such inclusion are to increase the Licensee's overline limitation (see 13 CFR 107.740) and to increase the capital base used in the computation of Capital Impairment (see 13 CFR 107.1830).

iv. Unfunded commitments from investors are not reported as part of the contributed capital of the Licensee in the Statement of Financial Position of SBA Form 468. The amount of such commitments must be disclosed in a footnote to the financial statements, which must separately identify commitments included in Regulatory Capital and any other commitments outstanding. Any significant terms and conditions associated with investor commitments, including the timing of anticipated drawdowns if known, must also be disclosed.

W. Unrealized Gain (Loss) on Securities Held

i. Unrealized Gain (Loss) on Securities Held results from the valuation of Loans and Investments by the Board of Directors or General Partner(s). Unrealized appreciation is recognized for valuations above cost and unrealized depreciation is recognized for valuations below cost. Unrealized gain or loss is the aggregate amount obtained by summing the unrealized appreciation or depreciation of all Loans and Investments, net of any estimated future income tax effects.

ii. Unlike some other types of investment companies, such as mutual funds, SBICs do not report changes in net unrealized appreciation or depreciation in the Statement of Operations. Instead, such changes are recorded directly in the capital account, Unrealized Gain (Loss) on Securities Held. SBA requires this treatment for two reasons: (1) because most securities held by SBICs have no readily ascertainable market values and valuation of such securities is highly subjective, SBA prefers that reported net income not be influenced by changes in valuation; and (2) segregation of unrealized gains and losses on the Statement of Financial Position makes it easier to perform certain computations required by SBA regulations.

X. Undistributed Realized Earnings

i. Undistributed Realized Earnings is the defined term used in SBA regulations to represent the earned capital of a Licensee. In general, Undistributed Realized Earnings are the cumulative balance of periodic net investment income (loss) and realized gain (loss) on investments, less dividends or distributions (at times, an SBIC may need to make an adjustment which is not reflected in this general formula). To accommodate regulatory requirements, two components of Undistributed Realized Earnings are presented separately in the financial statements:

ii. *Non-cash Gains/Income* includes such items as: (1) gains on the disposition of securities realized in the form of notes, securities or any other non-cash assets; (2) income recognized under the equity method of accounting; (3) dividends received in kind; (4) interest income accrued on deferred interest notes, zero coupon bonds or similar instruments; and (5) delinquent accrued interest converted into a new note or added to the principal of an existing note (the amount of such interest which is included in Undistributed Net Realized Earnings must be reclassified to Non-cash Gains/Income). Interest income recognized through normal year-end interest accruals associated with current-pay debt instruments should not be classified as Non-cash Gains/Income.

iii. Non-cash Gains/Income represents realized earnings of an SBIC that have been recognized in the Statement of Operations. Such earnings are segregated in the Statement of Financial Position only because they are subject to certain restrictions under SBA regulations, primarily concerning distributions. In effect, Non-cash Gains/Income can be considered a type of restricted retained earnings.

iv. Classification of capital gains or other income as non-cash items is generally intended to be temporary. As a Licensee receives payments on a note, receives distributions from a partnership in which it has invested, sells shares of stock received as a dividend or otherwise converts non-cash assets to cash, amounts initially reported as Non-cash Gains/Income are reclassified as Undistributed Net Realized Earnings.

v. *Undistributed Net Realized Earnings* is a residual, computed by subtracting the balance in Non-cash Gains/Income from Undistributed Realized Earnings. If an SBIC holds treasury stock, Undistributed Net Realized Earnings are restricted (i.e., not available for distribution) to the extent of the cost of such treasury stock.

Y. Retained Earnings Available for Distribution

i. Retained Earnings Available for Distribution represents, in most cases, the maximum amount that an SBIC may distribute to investors, excluding permitted returns of capital. For SBICs that have received financial assistance from SBA in a form other than debentures, the term "investors" encompasses SBA as well as private investors.

ii. In some instances, SBA is entitled to receive payments from Retained Earnings Available for Distribution on a priority basis, and must receive these payments before any amounts may be distributed to investors or transferred to private capital. Dividends on 4 percent preferred stock issued by Section 301(d) Licensees are an example of such payments. In other cases, SBA may be entitled to receive payments from Retained Earnings Available for Distribution in proportion to any distributions received by private investors. Profit Participation on Participating Securities is an example of this type of payment.

iii. For most Licensees, Retained Earnings Available for Distribution is computed by subtracting unrealized depreciation on Loans and Investments from Undistributed Net Realized Earnings (excluding any restricted amounts). Unrealized depreciation and unrealized appreciation are *not* netted in this computation.

iv. For Section 301(d) Licensees that have issued 4 percent preferred stock, there is one additional element in the computation. Because 4 percent dividends in arrears are accrued and charged against Undistributed Net Realized Earnings, they must be added back to determine Retained Earnings Available for Distribution. In this case, the balance of Retained Earnings Available for Distribution may be distributed only to SBA until all 4 percent dividends are paid in full.

v. Although partnerships do not ordinarily report retained earnings as such, partnership SBICs must compute Retained Earnings Available for Distribution in the same manner as corporate SBICs. Further discussion of the equity classifications used by partnership SBICs in financial reporting to SBA appears in paragraph Z ("Partnership Capital Accounts") of this section V.

vi. If a Licensee has negative Retained Earnings Available for Distribution as of the end of a fiscal period, and has made or declared a distribution during such period, the distribution may have violated SBA regulations. It is the Licensee's responsibility to show, to the satisfaction of SBA, that it had sufficient Retained Earnings Available for Distribution at the time the distribution was made. In particular, a Licensee must consider the adequacy of its unrealized depreciation before making a distribution.

vii. *Capitalization of Retained Earnings Available for Distribution.* Ordinarily, contributed capital and earned capital are maintained and reported separately. In the SBIC program, however, a Licensee with positive Retained Earnings Available for Distribution (READ) has the option of "capitalizing" such earnings by permanently reclassifying them as contributed capital. As a result of the reclassification, Undistributed Net Realized Earnings are reduced, while paid-in capital is increased; the net effect is the same as if the Licensee had made a distribution to its owners, who then reinvested the same amount in the Licensee. From a regulatory perspective, this action results in an increase in the Licensee's Leverageable Capital, thus increasing its eligibility for SBA leverage. Capitalization of READ reflects the intent of a Licensee to pursue long-term growth by reinvesting its earnings in small businesses. In order to be eligible to capitalize READ, an SBIC must have paid any amounts due to SBA on a priority basis (such as Prioritized Payments or the preferred dividends on 3 percent and 4 percent preferred stock). In addition, the SBIC must file Form 415C with SBA. For all regulatory purposes, capitalization of READ constitutes a distribution to the Licensee’s non-SBA investors.

viii. *1940 Act Companies*. A Licensee that has registered under the Investment Company Act of 1940 may elect to be taxed as a regulated investment company under section 851 of the Internal Revenue Code of 1986, as amended. In general, such a company can avoid taxation at the corporate level if it distributes at least 90 percent of its investment company taxable income for a given year. Licensees which are (or contemplate becoming) 1940 Act companies should be aware that the distribution requirements imposed on such companies by the Internal Revenue Code may, under certain circumstances, conflict with SBA regulations concerning distributions to shareholders. SBA regulations allow profit distributions to be made only from Retained Earnings Available for Distribution. Any distribution that would exceed Retained Earnings Available for Distribution requires the prior written approval of SBA.

Z. Partnership Capital Accounts

i. To provide the information necessary to determine compliance with various SBA regulations, Licensees that organize as limited partnerships must divide partners' capital into specified categories. The categories are (1) Partners' Contributed Capital, (2) Unrealized Gain (Loss) on Securities Held, (3) Non-Cash Gains/Income, and (4) Undistributed Net Realized Earnings (Partners' Earned Capital). The sum of these four accounts is the equivalent of the total partners' capital of a non-SBIC partnership. The Licensee must also record the general and limited partners' shares of each capital account, which results in eight separate control accounts for partners' capital.

ii. *Partners' Permanent Capital Contribution.* This balance represents proceeds from the sale of partnership interests and any other partners' contributions of cash or other consideration to the partnership, less any returns of capital or other deductions.

iii. *Unrealized Gain (Loss) on Securities Held.* This component of partnership capital results from the valuation of Loans and Investments by the General Partner(s). Unrealized appreciation is recognized for valuations above cost and unrealized depreciation is recognized for valuations below cost. Unrealized gain or loss is the sum of the unrealized appreciation or depreciation of all Loans and Investments. Estimated future tax effects associated with unrealized appreciation or depreciation are not taken into account because partnerships are not taxed at the entity level. For further information, see paragraph W of this section V.

iv. *Undistributed Net Realized Earnings and Non-Cash Gains/Income.* The sum of these accounts represents the total undistributed accumulated income ("earned capital") of the partnership. The two accounts must be maintained separately because SBA rules and regulations do not permit Non-cash Gains/Income to be distributed until they have been converted to cash. Both of these terms are explained in detail in paragraph X of this section V.

VI. Availability of Publications and Forms

i. This section contains information about where to obtain various publications and forms cited in these guidelines.

ii. The following forms may be obtained from the Investment Division of SBA: Form 468 (Annual Financial Report), Form 1031 (Portfolio Financing Report), and CO Form 112 (IPA Certification). Forms 468 and 1031 are provided to all Licensees in the form of electronic reporting software. SBA Policy and Procedural Releases #2001 through 2021 may also be obtained from the Investment Division.

iii. Pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor, the Accounting Principles Board (APB) may be purchased from the Order Department, FASB, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116.

iv. Publications of the American Institute of Certified Public Accountants (AICPA) may be purchased from the Order Department, AICPA, Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311-3881.

Appendix 15: Valuation Guidelines for Small Business Investment Companies

I. Introduction

This appendix describes the policies and procedures to which small business investment companies (SBICs or Licensees) must conform in valuing their Loans and Investments and provides guidance as to the techniques and standards which are generally applicable to such valuations.

The need for clearly defined valuation policies and procedures and understandable techniques arises in connection with the requirement that Licensees report the worth of their portfolios to investors and SBA. This information assists SBA in its assessment of the overall operational performance and financial condition of individual Licensees and of the industry.

II. Overall Guidelines

A. Definitions

1. *Asset Value* means the amount that the general partners or board of directors of a Licensee have established as a current value in accordance with its Valuation Policy.

2. *Marketable Securities* means securities for which market quotations are readily available and the market is not "thin", either in absolute terms, or relative to the potentially saleable holdings of the Licensee and other investors with saleable blocks of such securities. These securities are valued as follows: (a) For over-the-counter stocks, taking the average of the bid price at the close for the valuation date and the preceding 2 days, and (b) for listed stocks, taking the average of the close for the valuation date and the preceding 2 days. This classification does not include securities which are subject to resale restrictions, either under securities laws or contractual agreements, although other securities of the same class may be freely marketable.

3. *Other Securities* means all Loans and Investments not defined in paragraph A.2 of this section II. Such securities will be valued at Asset Value. Most SBIC investments will fall in this classification.

4. *Valuation Policy* means the official document of a Licensee that definitively sets forth the Licensee's methods of valuing Loans and Investments in accordance with the requirements of 13 CFR 107.503 and this appendix.

B. Objective

The goal of a Licensee's valuation process is to value its Loans and Investments. However, the very nature of Licensees' investments sometimes makes the determination of fair market value problematical. In most cases there is no market for the investment at the time of valuation. Therefore, except where market quotations are readily available and the markets are not "thin", the Boards of Directors or General Partners are necessarily responsible for determining in good faith the value of Loans and Investments.

Determination of value will depend upon the circumstances in each case. No exact formula can be devised that will be generally applicable to the multitude of different valuation issues that will arise. This is especially true for semiannual valuation updates of relatively new investments for which current results either exceed or do not meet the portfolio concern's forecasts. A sound valuation should be based upon all of the relevant facts, with common sense and informed judgement influencing the process of weighing those facts and determining their significance in the aggregate.

C. General Considerations

The Asset Value of Loans and Investments will depend upon the circumstances of each individual case and will be based upon the nature of the asset and the stage of a company's existence.

In negotiating the terms and conditions of an investment with a portfolio concern, the Licensee, in effect, establishes an initial valuation for the investment, which is cost. Cost will be the Asset Value until there is a basis to increase or decrease the valuation.

Unrealized appreciation should be recognized when warranted, but should be limited to those investments that have a sustained economic basis for an increase in value. Temporary market fluctuations or a temporary increase in earnings should not be the cause or sole reason for appreciation.

Unrealized depreciation should be recorded when portfolio companies show sustained unfavorable financial performance. Continuous close scrutiny of Loans and Investments will provide insight into the business cycles and problems encountered by small business concerns. This insight will allow the Licensee to differentiate between a temporary downturn or setback and a long-term problem indicating a measurable decline in Asset Value.

When a decline in Asset Value appears permanent, a complete or partial write-off of the asset (i.e., recording a realized loss rather than unrealized depreciation) should occur. Some of the more obvious indications of permanent impairment of an investment include the termination of business operations, a petition for bankruptcy protection or liquidation, or the absence of a verifiable forwarding address of the business or its proprietor(s). Less obvious situations may include the loss of major revenue accounts, the shut down of a critical distribution channel, an adverse legal or regulatory ruling, or the expiration of a priority claim on collateral in a distressed Portfolio concern. These and other possible circumstances should be assessed on a case-by-case basis, with supporting documentation on file.

D. Valuation Responsibility

As specified in 13 CFR 107.503(c), the Board of Directors or General Partners have the sole responsibility for adopting a Licensee’s Valuation Policy and for using it to prepare valuations of the Licensee’s Loans and Investments for submission to SBA. In determining Asset Value, the Board of Directors or General Partners must satisfy themselves that all appropriate factors relevant to a good faith valuation have been considered and that the methods used are reasonable and prudent and are consistently applied. Although the Board of Directors or General Partners have the ultimate responsibility for determining Asset Value, they may appoint management or other persons to assist them in such determinations and to provide supporting data and make the necessary calculations pursuant to the Board's or General Partners' direction. It is essential that a careful, conservative, yet realistic approach be taken by Licensees in determining the Asset Value of each Loan and Investment.

As part of the annual audit of the Licensee's financial statements, the Licensee's independent public accountant has responsibility to review the Licensee's valuation procedures and implementation of such procedures including adequacy of documentation. The independent public accountant also has reporting responsibility regarding the results of this review. For information concerning the conduct of the annual audit, see appendix 14 of this SOP, “Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies”.

E. Frequency of Valuation

As a general rule, Loans and Investments must be valued individually and in the aggregate by the Board of Directors or General Partners at least semiannually, as of the end of the second and fourth quarters of a Licensee's fiscal year. However, Licensees with no outstanding Leverage or Earmarked Assets (both as defined in 13 CFR 107.50) need only perform valuations once a year. On a case-by-case basis, SBA may require valuations to be made more frequently. Only valuations performed as of the fiscal year-end are required to be reviewed by the Licensee's independent public accountant, as discussed in paragraph D. of this section II. Year-end valuations must be submitted to SBA within 3 months following the end of the Licensee’s fiscal year. Interim valuations must be submitted within 30 days following the close of the reporting period. Material adverse changes in valuations must be reported at least quarterly, within 30 days following the close of the quarter. Since the valuations will only be as sound as the timeliness of the financial information upon which they are based, Licensees must obtain financial statements from portfolio concerns on a regular basis. Monthly financial statements are normally appropriate.

F. Written Valuation Policy

Each Licensee must establish a written Valuation Policy approved by its Board of Directors or General Partners that includes a statement of policies and procedures that are consistent with Section III of this appendix.

G. Documentation

Each Licensee must prepare and retain in its permanent files a valuation report as of each valuation date documenting, for each portfolio security, the cost, the current Asset Value and the previous Asset Value, plus the methodology and supporting data used to determine the Asset Value. The minutes of meetings at which valuations are determined will contain a resolution confirming that each portfolio security was valued by the Board of Directors or General Partners in accordance with Licensee's duly adopted valuation procedures. The minutes of such meetings will incorporate by reference the valuation report signed by each Director or General Partner along with any dissenting valuation opinions.

H. Instructions

A model Valuation Policy is presented in Section III below. Licensees may adopt the model in its entirety or make appropriate modifications, additions or deletions. Any changes, however, must be generally consistent with the model and must be approved by SBA.

A second version of the model Valuation Policy is presented in Section IV. This section repeats the language of Section III, but is expanded to include additional explanatory paragraphs. These paragraphs are commentary provided by SBA to assist Licensees in interpreting and applying some of the model valuation criteria. They may be adapted for inclusion in the Licensee's Valuation Policy, if desired.

I. Approval

1. *Existing Licensees*. Any Licensee that utilizes the exact wording of Section III, without any additions, deletions, or changes will be presumed to have an acceptable Valuation Policy. SBA acknowledges, however, that this wording may not be entirely applicable to all Licensees. A Licensee may adopt a Valuation Policy that is different from Section III with SBA's prior written approval. If a Licensee wants to make minor changes in the wording of Section III, it is suggested that the Licensee indicate proposed deletions with a caret (^) and underline proposed additions.

2. *License applicants*. All applicants for an SBIC license must submit their proposed Valuation Policies for approval as part of the licensing application process.

III. Model Valuation Policy

A. General

1. The [Board of Directors] [General Partners] have sole responsibility for determining the Asset Value of each of the Loans and Investments and of the portfolio in the aggregate.

2. Loans and Investments will be valued individually and in the aggregate [at least semi-annually, as of the end of the second quarter of the fiscal year and as of the end of the fiscal year.] [at least annually, as of the end of the fiscal year.] Fiscal year-end valuations are audited as set forth in "Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies", Section IV, paragraph D.

3. This Valuation Policy is intended to provide a consistent, conservative basis for establishing the Asset Value of the portfolio. The Policy presumes that Loans and Investments are acquired with the intent that they are to be held until maturity or disposed of in the ordinary course of business.

B. Interest-Bearing Securities

1. Loans will be valued in an amount not greater than cost, with Unrealized Depreciation being recognized when value is impaired. The valuation of loans and associated interest receivable on interest-bearing securities should reflect the portfolio concern's current and projected financial condition and operating results, its payment history and its ability to generate sufficient cash flow to make payments when due.

2. When a valuation relies more heavily on asset versus earnings approaches, additional criteria should include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, the net liquidation value of tangible business assets, and the personal integrity and overall financial standing of the owners of the business. In those instances where a loan valuation is based on an analysis of certain collateralized assets of a business or assets outside the business, the valuation should, at a minimum, consider the net liquidation value of the collateral after reasonable selling expenses. Under no circumstances, however, shall a valuation based on the underlying collateral be considered as justification for any type of loan appreciation.

3. Appropriate unrealized depreciation on past due interest which is converted into a security (or added to an existing security) should be recognized when collection is doubtful. Collection is presumed to be in doubt when one or both of the following conditions occur: (i) interest payments are more than 120 days past due; or (ii) the portfolio concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern.

4. The carrying value of interest-bearing securities will not be adjusted for changes in interest rates.

5. The valuation of convertible debt may be adjusted to reflect the value of the underlying equity security net of the conversion price.

C. Equity Securities - Private Companies

1. Investment cost is presumed to represent value except as indicated elsewhere in these guidelines.

2. Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

3. The anticipated pricing of a portfolio concern's future equity financing should be considered as a basis for recognizing Unrealized Depreciation, but not for Unrealized Appreciation. If it appears likely that equity will be sold in the foreseeable future at a price below the Licensee's current valuation, then that prospective offering price should be weighed in the valuation process.

4. Valuation should be adjusted to a subsequent significant equity financing that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. A subsequent significant equity financing that includes substantially the same group of investors as the prior financing should generally not be the basis for an adjustment in valuation. A financing at a lower price by a sophisticated new investor should cause a reduction in value of prior securities.

5. If substantially all of a significant equity financing is invested by an investor whose objectives are in large part strategic, or if the financing is led by such an investor, it is generally presumed that no more than 50 percent of the increase in investment price compared to the prior significant equity financing is attributable to an increased valuation of the company.

6. Where a company has been self-financing and has had positive cash flow from operations for at least the past 2 fiscal years, Asset Value may be increased based on a very conservative financial measure regarding P/E ratios or cash flow multiples, or other appropriate financial measures of similar publicly-traded companies, discounted for illiquidity. Should the chosen valuation cease to be meaningful, the valuation may be restored to a cost basis, or in the event of significant deterioration in performance or potential, to a valuation below cost to reflect impairment.

7. With respect to portfolio companies that are likely to face bankruptcy or discontinue operations for some other reason, liquidating value may be employed. This value may be determined by estimating the realizable value (often through professional appraisals or firm offers to purchase) of all assets and then subtracting all liabilities and all associated liquidation costs.

8. Warrants should be valued at the excess of the value of the underlying security over the exercise price.

D. Equity Securities - Public Companies

1. Public securities should be valued as follows: (a) For over-the-counter stocks, take the average of the bid price at the close for the valuation date and the preceding 2 days, and (b) for listed stocks, take the average of the close for the valuation date and the preceding 2 days.

2. The valuation of public securities that are restricted should be discounted appropriately until the securities may be freely traded. Such discounts typically range from 10 percent to 40 percent, but the discounts can be more or less, depending upon the resale restrictions under securities laws or contractual agreements.

3. When the number of shares held is substantial in relation to the average daily trading volume, the valuation should be discounted by at least 10 percent, and generally by more.

IV. Valuation Policy With Supplementary Information

A. General

1. The [Board of Directors] [General Partners] have sole responsibility for determining the Asset Value of each of the Loans and Investments and of the portfolio in the aggregate.

2. Loans and Investments will be valued individually and in the aggregate [at least semi-annually - as of the end of the second quarter of the fiscal year and as of the end of the fiscal year.] [at least annually - as of the end of the fiscal year.] Fiscal year-end valuations are audited as set forth in “Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies”, Section IV, paragraph D.

3. This Valuation Policy is intended to provide a consistent, conservative basis for establishing the Asset Value of the portfolio. The Policy presumes that Loans and Investments are acquired with the intent that they are to be held until maturity or disposed of in the ordinary course of business.

B. Interest-Bearing Securities

1. Loans will be valued in an amount not greater than cost, with Unrealized Depreciation being recognized when value is impaired. The valuation of loans and associated interest receivable on interest-bearing securities should reflect the portfolio concern's current and projected financial condition and operating results, its payment history and its ability to generate sufficient cash flow to make payments when due.

2. When a valuation relies more heavily on asset versus earnings approaches, additional criteria should include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, the net liquidation value of tangible business assets, and the personal integrity and overall financial standing of the owners of the business. In those instances where a loan valuation is based on an analysis of certain collateralized assets of a business or assets outside the business, the valuation should, at a minimum, consider the net liquidation value of the collateral after reasonable selling expenses. Under no circumstances, however, shall a valuation based on the underlying collateral be considered as justification for any type of loan appreciation.

3. Appropriate unrealized depreciation on past due interest which is converted into a security (or added to an existing security) should be recognized when collection is doubtful. Collection is presumed to be in doubt when one or both of the following conditions occur: (i) interest payments are more than 120 days past due; or (ii) the portfolio concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern.

a. Licensees may rebut this presumption by providing evidence of collectibility satisfactory to SBA. Such evidence may include the existence of collateral, the value of which has been verified through an appraisal by an independent professional appraiser acceptable to SBA. Such an appraisal must be at liquidation value (net of liquidation costs) and must have been performed within the 12 months immediately preceding the valuation date. In considering whether collateral provides an appropriate basis for valuations, SBA will review the Licensee's operating history for evidence concerning its willingness and ability to pursue available remedies (including foreclosure) in default situations.

b. For those Licensees primarily involved in making loans, the use of a loan classification system is strongly encouraged to help manage portfolios and determine Asset Values, with loans that warrant extra attention being flagged by the Licensee's management. Such a "watch list" can also be used to report to the Board of Directors or General Partner(s). For each loan placed on the watch list, a reason or statement should describe the particular situation. Danger signals that should alert the Licensee to potential problems include delinquency, a lack of profitability, weak or decreasing equity, increasing debt load, a deteriorating cash position, an abnormal increase in accounts payable, inaccurate financial information, insurance cancellation, judgments and tax liens, family problems, loss of employees, collateral problems, slowdown in inventory turnover, poor maintenance of plant and equipment, and heavy reliance on short term debt.

c. Upon careful consideration of all the relevant factors, the Board of Directors or General Partners will determine which loans require recognition of Unrealized Depreciation. It is a good rule of operation for a Licensee to perform downward valuations earlier rather than later. When the quality of a loan recovers, a higher Asset Value may subsequently be assigned.

4. The carrying value of interest-bearing securities will not be adjusted for changes in interest rates.

5. The valuation of convertible debt may be adjusted to reflect the value of the underlying equity security net of the conversion price.

a. Accepted methods for valuing convertible debentures generally involve one of two approaches. The first approach views the debenture as a debt obligation. Under this approach, the Licensee should utilize the loan valuation techniques described in this section above. The second approach considers the conversion of <u>all</u> convertible securities of the same class into their common stock equivalent, taking into account dilution, and a subsequent valuation of the Licensee's proportionate equity interest. Valuation of this equity interest should follow the equity valuation techniques described in Paragraph C. of this section.

b. Normally, the reported value is the higher of these two alternatives. However, Licensees should disregard higher equity values and retain lower debt-based valuations if there are circumstances which make conversion undesirable. When equity considerations govern the Asset Value assigned, all underlying factors should be disclosed.

C. Equity Securities - Private Companies

1. Investment cost is presumed to represent value except as indicated elsewhere in these guidelines.

2. Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

3. The anticipated pricing of a Portfolio concern's future equity financing should be considered as a basis for recognizing Unrealized Depreciation, but not for Unrealized Appreciation. If it appears likely that equity will be sold in the foreseeable future at a price below the Licensee's current valuation, then that prospective offering price should be weighed in the valuation process.

4. Valuation should be adjusted to a subsequent significant equity financing that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. A subsequent significant equity financing that includes substantially the same group of investors as the prior financing should generally not be the basis for an adjustment in valuation. A financing at a lower price by a sophisticated new investor should cause a reduction in value of prior securities.

5. If substantially all of a significant equity financing is invested by an investor whose objectives are in large part strategic, or if the financing is led by such an investor, it is generally presumed that no more than 50 percent of the increase in investment price compared to the prior significant equity financing is attributable to an increased valuation of the company.

6. Where a company has been self-financing and has had positive cash flow from operations for at least the past 2 fiscal years, Asset Value may be increased based on a very conservative financial measure regarding P/E ratios or cash flow multiples, or other appropriate financial measures of similar publicly-traded companies, discounted for illiquidity.

Should the chosen valuation cease to be meaningful, the valuation may be restored to a cost basis, or in the event of significant deterioration in performance or potential, to a valuation below cost to reflect impairment.

a. Under these conditions, valuation factors that may be considered include:

(1) The utilization of a multiple of earnings, cash flow, or revenues, which are commensurate with the multiples which the market currently accords to comparable companies in similar businesses and industries, with an appropriate discount for conditions such as illiquidity or a minority position. Care should be taken to use only comparable companies, including not only business similarities but also similarities as to size, financial condition, and earnings outlook. However, in order for comparative market prices to be meaningful, data for a representative sample of similar companies must be available.

(2) Among the more important factors to be considered in a particular case are (i) the nature of the business, (ii) the risk involved, and (iii) the growth, stability or irregularity of earnings and cash flows. A company with a positive earnings trend and a favorable outlook may command a capitalization factor (multiplier) in the marketplace that will result in a stock valuation well above book value. When the gross value of a portfolio concern is computed by applying a capitalization rate to pre-interest, pre-tax earnings, the value of equity securities is derived by subtracting the outstanding debt of the concern from the gross value. While capitalization rates do vary, an appropriate rate can be determined by analyzing rates for comparable companies in the same industry. Investigating similar companies in the same industry or geographic area can be done directly or through published material from sources such as the Value Line, Standard and Poor's, Robert Morris and Associates, or any other of the numerous sources available for comparative industry data.

(3) Another method discounts the present value of estimated future proceeds to a Licensee, including dividend income and sales of securities, using a discount rate that reflects the degree of risk of the equity interest.

(4) One may also utilize the recent sale prices of comparable blocks of the issuer's securities in arm's length transactions.

b. Equity interests or limited partnership interests without the benefit of stock certificates and which generally define a certain percentage of the profits to be allocated to each of the investors based on its relative contributions should be valued in a manner similar to the valuation methods described in this section.

7. With respect to portfolio companies that are likely to face bankruptcy or discontinue operations for some other reason, liquidating value may be employed. This value may be determined by estimating the realizable value (often through professional appraisals or firm offers to purchase) of all assets and then subtracting all liabilities and all associated liquidation costs.

a. Liquidation value will depend on the decreasing value of wasting assets, the costs experienced by the business being liquidated, the expenses borne by the Licensee in order to be able to realize any liquidating value, the elapsed time until such net proceeds can be realized, the ranking of the Licensee's claims relative to other security interests and subordination agreements, and the probability of any ultimate realization of value.

b. Incorporating this approach as a normal step in valuation can provide improved understanding of the downside of an investment.

c. Licensees should recognize unrealized appreciation or depreciation, as appropriate, on Assets Acquired in liquidation of Loans and Investments. In order to recognize Unrealized Appreciation, asset values must be verified by an appraisal which meets all the conditions specified in the preceding paragraph; Provided, however, that if the assets acquired constitute a going concern, such assets may be appraised as a going concern rather than at liquidation value. Unrealized Appreciation may not be recognized if the Licensee does not benefit from such appreciation. For example, an asset acquired through foreclosure should not be carried at a value greater than the defaulted loan balance plus any expenses and penalties to which the Licensee is entitled.

8. Warrants should be valued at the excess of the value of the underlying security over the exercise price.

a. Valuation of debt with detachable warrants can be done similarly to convertible debt by treating the debt and warrants as a unit, or, alternatively, the debt can be valued on its own basis as a debt instrument, and the warrants separately. If the warrants are valued separately, the following factors must be taken into account:

(1) Current value of issued shares.

(2) The differential between the exercise price and the underlying share values if the current share values are higher than the exercise price.
(3) Time until expiration dates are reached or dates of changes in terms of exercise prices.
(4) Number of shares into which the warrants are exercisable on various dates.
(5) Restrictions on sale of the underlying stock.
(6) Restrictions on the transferability of the warrants.
(7) Registration rights for the warrants or the underlying shares.
(8) Financial ability of the Licensee to perform the exercise of its rights or to sell its warrants.
(9) The ultimate desirability, if any, of exercising the rights given by the warrants.

D. Equity Securities - Public Companies

1. Public securities should be valued as follows: (a) For over-the-counter stocks, take the average of the bid price at the close for the valuation date and the preceding 2 days, and (b) for listed stocks, take the average of the close for the valuation date and the preceding 2 days.

a. However, securities are not deemed to be freely marketable in those situations where such securities are very thinly or infrequently traded, or may be lacking in truly representative market quotations, or where the market for such securities cannot absorb the quantity of shares which the Licensee and similar investors may want to sell.

b. In such cases, Asset Value must be determined by the Board of Directors or General Partners.

2. The valuation of public securities that are restricted should be discounted appropriately until the securities may be freely traded. Such discounts typically range from 10 percent to 40 percent, but the discounts can be more or less, depending upon the resale restrictions under securities laws or contractual agreements.

3. When the number of shares held is substantial in relation to the average daily trading volume, the valuation should be discounted by at least 10 percent, and generally by more.

Appendix 16: Chart of Accounts for Small Business Investment Companies

A. *Account Numbering System*. This system provides for two-digit number designations for major categories under which accounts are listed, and three-digit number designations for individual general ledger accounts. The first two digits of an individual account number refer to the major category under which the account is classified and the third digit identifies the specific account. Digits from zero through nine are used to identify specific accounts; the first deposit bank account established will be designed "100" and the second "101". Some categories encompass individual accounts in sufficient number to require assignment of more than one two-digit number to identify the category. For example, "Cash on Hand and in Banks" has been assigned category numbers "10", "11" and "12."

B. *Additional Accounts*. Licensees may incorporate such additional accounts into their accounting system as are considered necessary. Any account may be subdivided provided that such subaccounts do not impair the integrity of the accounts set forth in the prescribed system. Subaccounts shall refer by number and title to the accounts to which they apply.

C. *Primary Classification of Accounts*. The primary classification of accounts is as follows:

Account No. Description

General Ledger

100 to 299 .... Asset and valuation accounts.
300 to 399 .... Liability accounts.
400 to 499 .... Capital accounts.
500 to 599 .... Income/Gain accounts.
600 to 799 .... Expense/Loss accounts.

Memorandum Records

NA-10 to NA-14 .... Nominal assets.
CL-15 to CL-17 .... Contingent liabilities.
OCS-1 .... Options on licensee's stock.
AL-1 .... Actual (realized) losses.
WI-1 .... Worthless investments -- written off.
PDA-1 .... Preferred dividend arrearages on preferred stock.
PPA-1 .... Prioritized Payments Accumulation Account.
PPE-1 .... Prioritized Payments Earned Account.
BCI-1 .... Binding commitments from Institutional Investors.
CLC-1 .... SBA conditional leverage commitments.
OCI-1 .... Other commitments from investors.
PLI-1 .... Preferential liquidating interest of SBA.

D. *Detailed Chart of Accounts*. The detailed chart of accounts is organized according to the primary classification of accounts and identifies the account number and title of each account.

Asset and Valuation Accounts

10 - 12 -- Cash on Hand and in Banks
    100 - 108 -- Bank Deposits.
    110 - 112 -- Deposits in Imprest Account.
    118 -- Cash Items in Process of Collection.
    120 -- Petty Cash Fund.
13 -- Invested Idle Funds
    130 -- U.S. Government Obligations, Direct and Fully Guaranteed.

131 -- Insured Savings Accounts.
135 - 137 -- Time Certificates of Deposit.
138 -- Repurchase Agreements with Insured Institutions.
139 -- Other Investments in Insured Institutions.

14 -- Receivables
140 -- Notes Receivable.
141 -- Accounts Receivable.
142 -- Allowance for Uncollectible Notes and Accounts Receivable.
143 -- Accrued Interest Receivable.
144 -- Allowance for Uncollectible Interest Receivable.
145 -- Dividends Receivable.
146 -- Receivables from Parent.
15 -- Current Maturities and Other Current Assets
150 -- Current Maturities of Portfolio Securities.
152 -- Current Maturities of Assets Acquired in Liquidation of Portfolio Securities.
153 -- Current Maturities of Operating Concerns Acquired.
154 -- Current Maturities of Other Securities.
156 -- Other Current Assets.
16 -- Investment in Section 301(d) Licensee
160 -- Investment in Section 301(d) Licensee.
17 -- Loans to Small Businesses
170 -- Loans.
172 -- Depreciation of Loans.
173 -- Unearned Discount, Fees, and Other Charges on Loans.
18 -- Debt Securities of Small Businesses
180 -- Debt Securities with Stock Purchase Warrants or Options, and/or Conversion Features.
184 -- Debt Securities Divested of Stock Rights.
186 -- Appreciation of Debt Securities.
187 -- Depreciation of Debt Securities.
188 -- Unearned Discount, Fees, and Other Charges on Debt Securities.
19 -- Equity Interests of Small Businesses
190 -- Capital Stock of Small Businesses, with Stock Purchase Warrants or Options, and/or Conversion Features.
191 -- Capital Stock of Small Businesses -- Other.
192 -- Appreciation of Capital Stock.
193 -- Depreciation of Capital Stock.
194 -- Equity Interests of Unincorporated Concerns.
195 -- Appreciation of Equity Interests in Unincorporated Concerns.
196 -- Depreciation of Equity Interests in Unincorporated Concerns.
197 -- Warrants, Options, and Other Stock Rights Acquired from Small Businesses.
198 -- Appreciation of Warrants, Options, and Other Stock Rights Acquired from Small Businesses.
199 -- Depreciation of Warrants, Options, and Other Stock Rights Acquired from Small Businesses.
20 -- Assets Acquired in Liquidation of Portfolio Securities
200 -- Receivables from Debtors on Sale of Assets Acquired in Liquidation of Portfolio Securities.
203 -- Depreciation in Values of Receivables from Debtors on Sale of Assets Acquired in Liquidation of Portfolio Securities.
204 -- Assets Acquired in Liquidation of Portfolio Securities.
205 -- Appreciation of Assets Acquired in Liquidation of Portfolio Securities.
206 -- Depreciation of Assets Acquired in Liquidation of Portfolio Securities.

21 -- Operating Concerns Acquired
- 210 -- Operating Concerns Acquired.
- 211 -- Appreciation of Operating Concerns Acquired.
- 212 -- Depreciation of Operating Concerns Acquired.

22 -- Other Securities
- 220 -- Notes and Other Securities Received on Sale of Portfolio Securities.
- 221 -- Other Securities Received.
- 222 -- Appreciation of Other Securities.
- 223 -- Depreciation of Other Securities.

23 -- Prepaid Expenses
- 230 -- Prepaid Expenses.

24 -- Furniture and Equipment
- 240 -- Furniture and Equipment.
- 241 -- Accumulated Depreciation on Furniture and Equipment.

25 -- Business Premises Owned
- 250 -- Business Premises Owned.
- 251 -- Accumulated Depreciation on Business Premises Owned.
- 252 -- Leasehold Improvements.

26-- Deferred Tax Assets
- 260 -- Deferred Tax Assets.
- 261 -- Valuation Allowance for Deferred Tax Assets.

27 -- Other Assets
- 275 -- Amounts Due From Directors, Officers, Owners, Employees, etc.
- 277 -- Funds in Escrow.
- 278 – Deferred Financing Costs.
- 279 -- Other Assets.

Liability Accounts

30 -- Notes and Other Obligations Payable to SBA
- 300 -- Notes Payable to SBA.
- 301 -- Debentures Payable to SBA.

31 -- Obligations Payable to Other than SBA
- 310 -- Debentures Guaranteed by SBA.
- 311 -- Long-Term Non-SBA Debt.
- 312 -- Mortgages Payable.
- 313 -- Mortgages Payable on Assets Acquired in Liquidation of Portfolio Securities.

32 -- Notes Payable -- Other
- 320 -- Notes Payable -- Other.

33 -- Current Maturities of Long-Term Debt
- 330 -- Current Maturities of Notes and Debentures Payable to or Guaranteed by SBA.
- 331 -- Current Maturities of Non-SBA Debt.

34 -- Accounts Payable
- 340 -- Accounts Payable.
- 341 -- Accounts Payable Due Parent, Shareholders or Partners.

35 -- Accrued Expenses and Other Current Liabilities
- 350 -- Accrued Interest Payable.
- 351 -- Accrued Taxes.
- 354 -- Estimated Income Taxes Accrued.

358 -- Other Current Liabilities.
36 -- Dividends and Distributions Payable
360 - 364 -- Dividends Payable on Capital Stock (by Class).
365 - 369 -- Distributions Payable to General Partners/Limited Partners.
37 -- Trust Receipts
370 -- Employee Taxes Withheld.
374 -- Unapplied Receipts.
378 -- Miscellaneous Trust Receipts.
38 -- Deferred Tax Liabilities and Other Deferred Credits
380 -- Deferred Tax Liabilities.
383 -- Other Deferred Credits.
39 -- Other Liabilities
390 -- Other Liabilities.

Capital Accounts

40 - 41 -- Capital Stock and Surplus Accounts
400 - 404 -- Capital Stock.
406 - 407 -- Capital Stock Subscribed.
409 - 410 -- Capital Stock Subscriptions Receivable.
412 - 414 -- Treasury Stock.
416 -- Paid-in Surplus.
418 -- Restricted Contributed Capital Surplus.
42 -- 3 Percent Preferred Stock (Section 301(d) Licensees only)
420 -- 3 Percent Preferred Stock (Issued to SBA).
43 -- Redeemable Securities
430 -- 4 Percent Preferred Stock (Issued to SBA).
431 -- Cumulative Undeclared 4 Percent Dividends.
432 -- 4 Percent Preferred Limited Partnership Interests (Issued to SBA).
433 -- Cumulative 4 Percent Returns Due on Preferred Limited Partnership Interests.
434 -- Participating Securities (Partnership).
435 -- Prioritized Payment Distribution Account.
436 -- SBA Profit Participation.
44 -- Unrealized Gain (Loss) on Securities Held--Corporations
440 -- Unrealized Appreciation on Investments--Corporations.
445 -- Unrealized Depreciation on Loans and Investments--Corporations.
448 -- Estimated Taxes on Net Unrealized Gain (Loss) on Securities Held.
45 -- Undistributed Realized Earnings--Corporations
450 -- Noncash Gains/Income--Corporations.
451 -- Undistributed Net Realized Earnings--Corporations.
452 -- Year-to-date Net Income (Loss)—Corporations.
47 -- Partners' Capital Contributions
471 -- Entity General Partners' Permanent Capital Contribution.
472 -- Individual General Partners' Permanent Capital Contribution.
476 -- Limited Partners' Permanent Capital Contribution.
48 -- Partners' Unrealized Gain (Loss) on Securities Held
481 -- Entity General Partners' Unrealized Appreciation on Investments.
482 -- Individual General Partners' Unrealized Appreciation on Investments.
483 -- Entity General Partners' Unrealized Depreciation on Loans and Investments.

484 -- Individual General Partners' Unrealized Depreciation on Loans and Investments.
485 -- Limited Partners' Unrealized Appreciation on Investments.
486 -- Limited Partners' Unrealized Depreciation on Loans and Investments.

49 -- Partners' Undistributed Realized Earnings (Loss)
491 -- Entity General Partners' Noncash Gains/Income.
492 -- Individual General Partners' Noncash Gains/Income.
493 -- Entity General Partners' Undistributed Net Realized Earnings (Loss).
494 -- Individual General Partners' Undistributed Net Realized Earnings (Loss).
495 -- Limited Partners' Non-cash Gains/Income.
496 -- Limited Partners' Undistributed Net Realized Earnings (Loss).
497 -- Partnership Year-to-date Net Income (Loss)

Income/Gain Accounts

50 -- Commitment Income
500 -- Commitment Fee Income.

51 - 52 -- Interest Income
510 -- Interest on Invested Idle Funds.
512 -- Interest on Loans.
516 -- Interest on Debt Securities.
520 -- Interest Income -- Other.

53 -- Fee Income
532 -- Management Service Fees.
534 -- Investigation and Service Fees Charged Other Lenders.
536 -- Application, Closing and Other Fees.

54 -- Dividends and Other Earnings
540 -- Dividends on Capital Stock of Small Businesses.
541 -- Sharing in Income or Revenue of Small Businesses.

57 -- Gain on Securities and Other Assets
570 -- Gain on U.S. Government Securities.
571 -- Gain on Loans.
572 -- Gain on Debt Securities.
574 -- Gain on Capital Stock of Small Businesses.
575 -- Gain on Equity Interests in Unincorporated Concerns.
576 -- Gain on Warrants, Options, and Other Stock Rights Acquired from Small Businesses.
577 -- Gain on Assets Acquired in Liquidation of Portfolio Securities.
578 -- Gain on Operating Concerns Acquired.
579 -- Gain on Other Assets.

58 -- Miscellaneous Income
582 -- Income from Assets Acquired in Liquidation of Portfolio Securities.
584 -- Other Income.

Expense/Loss Accounts

60 -- Commitment Expense
600 -- Commitment Expense.

61 - 62 -- Interest Expense
610 -- Interest on Obligations Payable to/Guaranteed by SBA.
622 -- Interest on Non-SBA Obligations.

64 -- Stock Record and Other Financial Expenses
    641 -- Annual Fee on Obligations Guaranteed by SBA.
    642 -- Stock Record and Other Financial Expenses.
65 - 67 -- Operating Expenses
    650 -- Advertising and Promotional Costs.
    651 -- Appraisal and Investigation Costs.
    652 -- Auditing and Examination Costs.
    653 -- Communications.
    654 -- Cost of Space Occupied.
    655 -- Depreciation of Business Premises Owned, Furniture, and Equipment.
    656 -- Amortization of Leasehold Improvements.
    657 -- Directors', Stockholders' or Partners' Meetings Costs.
    658 -- Insurance.
    659 -- Management Services Fees.
    660 -- Investment Advisor Costs.
    661 -- Legal Services.
    663 -- Salaries.
    664 -- Taxes, Excluding Income Taxes.
    665 -- Travel.
    670 -- Employee Benefits Expense.
    672 -- Organization Costs.
    673 -- Amortization of Deferred Financing Costs.
    679 -- Miscellaneous Operating Expenses.
68 -- Estimated Losses on Receivables
    680 -- Estimated Losses on Receivables.
70 -- Loss on Securities and Other Assets
    700 -- Loss on U.S. Government Securities.
    701 -- Loss on Loans.
    702 -- Loss on Debt Securities.
    704 -- Loss on Capital Stock of Small Businesses.
    705 -- Loss on Equity Interests in Unincorporated Concerns.
    706 -- Loss on Warrants, Options, and Other Stock Rights Acquired from Small Businesses.
    707 -- Loss on Assets Acquired in Liquidation of Portfolio Securities.
    708 -- Loss on Operating Concerns Acquired.
    709 -- Loss on Other Assets.
71 -- Miscellaneous Expenses
    710 -- Expense on Assets Acquired in Liquidation of Portfolio Securities.
    715 -- Other Expenses
72 -- Income Taxes
    720 -- Income Taxes -- Net Income.
    722 -- Income Taxes -- Net Realized Gain on Investments.

Memorandum Records

Nominal Assets
    NA - 10 -- Stock Purchase Warrants or Options on Stock of Small Businesses.
Contingent Liabilities
    CL - 15 -- Commitments Outstanding.
    CL - 16 -- Guarantees Outstanding.

CL - 17 -- Other Contingent Liabilities.
Options on Licensee's Stock
OCS - 1 -- Options on Licensee's Stock.
Actual Loss Experience
AL - 1 -- Actual (Realized) Losses.
WI - 1 -- Worthless Investments Written Off.

Preferred Dividend Arrearages
PDA - 1 -- Preferred Dividend Arrearages on 3 Percent Preferred Stock Sold to SBA.
Prioritized Payments Accumulation Account
PPA - 1 -- Prioritized Payments Accumulation Account.
Prioritized Payments Earned Account
PPE - 1 -- Prioritized Payments Earned Account.
Binding Commitments from Institutional Investors
BCI - 1 -- Binding Commitments from Institutional Investors.
SBA Conditional Leverage Commitments
CLC - 1 -- SBA Conditional Leverage Commitments.
Other Commitments
OCI - 1 -- Other Commitments from Investors.
Preferential Liquidating Interest of SBA
PLI - 1 -- Preferential Liquidating Interest of SBA.

E. *Description of Accounts*. The following is a detailed description of each account.

Asset and Valuation Accounts

100 - 108 -- Bank Deposits

These accounts represent funds on demand deposit in a federally insured bank or savings and loan company, in accordance with 13 CFR 107.530.

Debit:
(a) With amount of funds deposited.

Credit:
(a) With amount of funds withdrawn, and charges made by bank for such items as dishonored checks, transfer of funds by wire, collection, exchange, etc.

110 - 112 -- Deposits in Imprest Account

These accounts represent funds on demand deposit in imprest bank accounts to be drawn upon for the payment of operating expenses and to be reimbursed periodically from the licensee's general funds bank account.

Debit:
(a) With amount of funds deposited.

Credit:
(a) With amount of funds withdrawn.

118 -- Cash Items in Process of Collection

This account represents the amount of cash items placed with banks for collection.

Debit:
(a) With amount of such items placed with banks for collection.

Credit:
(a) With amount of items collected.
(b) With amount of uncollected items returned or withdrawn.

120 -- Petty Cash Fund

This account represents the imprest petty cash fund maintained for the purpose of making small disbursements.

Debit:
(a) With amount placed in the fund when established.
(b) With amount of increase in the fund.

Credit:
(a) With amount of decrease in the fund.

Note: The petty cash fund may be reimbursed and expenditures recorded as often as circumstances require, but must be reimbursed at the close of the licensee's fiscal year. Checks to replenish the fund will be drawn on a general fund bank account and include "petty cash" as a payee.

130 -- U. S. Government Obligations, Direct and Fully Guaranteed

This account represents the cost of temporary investments in direct obligations of the United States Government and obligations guaranteed as to principal and interest by the United States Government.

Debit:
(a) With cost of securities acquired.

Credit:
(a) With cost of securities sold or disposed of otherwise.

131 -- Insured Savings Accounts

This account includes the balances in subaccount nos. 131.1, 131.2, etc.

131.1 -- Insured Savings in XXXXXXX

This account represents funds in a savings account in a federally insured bank or savings and loan company, in accordance with 13 CFR 107.530.

Debit:
(a) With amount of funds invested.
(b) With amount of interest earned on such invested funds.

Credit:
(a) With amount of funds withdrawn.

135 - 137 -- Time Certificates of Deposit.

These accounts represent funds in Time Certificates of Deposit with a maturity of 1 year or less, issued by a federally insured institution.

Debit:
(a) With amount of funds deposited.

Credit:
(a) With amount of funds withdrawn.

138 -- Repurchase Agreements with Insured Institutions

This account represents funds invested in repurchase agreements with federally insured institutions, with a maturity of 7 days or less. In accordance with 13 CFR 107.530, the securities underlying the repurchase agreements must be direct obligations of, or obligations guaranteed as to principal and interest by, the United States.

Debit:
(a) With funds invested.

Credit:
(a) With funds withdrawn at maturity.

139 -- Other Investments in Insured Institutions

This account represents funds deposited or invested in insured institutions that can not be classified in any of the prior categories.

Debit:
(a) With the amount of funds deposited or invested.

Credit:
(a) With the amount of funds withdrawn.

140 -- Notes Receivable

This account represents the unpaid balance of miscellaneous notes receivable, such as notes for management consulting services. Notes representing amounts due from debtors on sale of assets acquired in liquidation of portfolio securities will be reflected in account no. 200.

Debit:
(a) With amount of such miscellaneous notes received.

Credit:
(a) With amount collected on principal of such miscellaneous notes.
(b) With unpaid principal balance written off or disposed of otherwise.

(If collection is in doubt, see account no. 142. For further information concerning collectibility of receivables, see "Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies".)

141 -- Accounts Receivable

This account represents the amount due on open account for management consulting, appraisal, and miscellaneous services rendered; and miscellaneous current receivables. Accounts receivable representing receivables due from debtors on sale of assets acquired in liquidation of portfolio securities will be reflected in account no. 200.

Debit:

(a) With amount due the licensee.

Credit:
(a) With amount collected.
(b) With amount written off or disposed of otherwise.

Note: If collection is in doubt, see account no. 142. For further information concerning collectibility of receivables, see "Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies".

142 -- Allowance for Uncollectible Notes and Accounts Receivable

This account represents the valuation reserve provided for estimated losses on notes and accounts receivable and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses on notes and accounts receivable.

Debit:
(a) With amount of decreases in such reserve.
(b) With amount of notes and accounts receivable written off.

Credit:
(a) With amount of such reserve established.
(b) With amount of increases in such reserve.
(c) With amount of recoveries on notes and accounts receivable written off.

143 -- Accrued Interest Receivable

This account represents the amount of interest accrued on portfolio loans to and debt securities of small businesses, United States Government obligations, direct and fully guaranteed, notes receivable, sales contracts, and other interest-bearing amounts due from debtors, including funds placed in escrow pending the closing of financing and assets acquired in liquidation of portfolio securities as well as interest accrued on other securities.

Debit:
(a) With amount of interest accrued on all items covered by this account.

Credit:
(a) With amount of interest payments received.
(b) With amount of accrued interest transferred to assets acquired in liquidation of loans and debt securities.
(c) Upon disposition of interest-bearing obligations, with amount of accrued interest thereon included in this account.
(d) With amount of accrued interest written off or disposed of otherwise.

Note 1. -- At the option of the licensee, interest payments received in cash from debtors prior to the interest maturity date may be credited to account no. 374 -- Unapplied receipts, until the maturity date.

Note 2. -- As stated in "Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies", accrual of interest receivable should be discontinued with respect to a loan or debt security if the financed small business is in bankruptcy, insolvent, or if there is substantial doubt about its ability to continue as a going concern. Any interest payments received under these conditions should not be treated as interest income, but should be credited either as principal payments or as deferred income in account no. 383 -- Other deferred credits, pending determination of the appropriate accounting. In less serious situations, when the financed small business is in default more than 120 days, or the fair value of the loan or debt security is less than cost, or recovery thereon is doubtful, the accrual of interest receivable should be accompanied by an appropriate addition to the allowance for uncollectible interest receivable, or, as an alternative, the interest income should be deferred in account no. 383.

(See account no. 144.)

144 -- Allowance for Uncollectible Interest Receivable

This account represents the valuation reserve provided for estimated losses of accrued interest receivable, and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands, so that this account will reflect the best available estimate of probable losses of accrued interest receivable.

Debit:
(a) With amount of decreases in such reserve.
(b) With amount of accrued interest receivable written off.

Credit:
(a) With amount of increases in such reserve established.
(b) With amount of increases in such reserve.
(c) With amount of recoveries of accrued interest receivable written off.

145 -- Dividends Receivable

This account represents cash dividends that have been declared on capital stock of small businesses but have not been distributed to stockholders.

Debit:
(a) With amount due the licensee of cash dividend declared.

Credit:
(a) With amount distributed to the licensee of the dividend declared.

(See account no. 540.)

Note 1. -- Stock splits are not recorded as dividends receivable or dividend income because the licensee's equity interest in the company declaring the dividend or split has not changed. Therefore, stock splits will be measured in the appropriate investment account (Account nos. 190 or 191).

Note 2. -- Dividends in kind will be recorded as income at the fair market value of the securities received and will be recorded in Account no. 221, Other securities received.

146 -- Receivables from Parent

This account represents receivables due licensee from its parent. Receivables due from parent will generally be from one of two sources: (1) Expenses shared pro-rata with the parent paid by the licensee, but not yet reimbursed by the parent and/or (2) licensee has a tax loss from which the parent (and/or consolidated group) have received a tax benefit.

Debit:
(a) With parent's share of any expense shared with the licensee which was paid by the licensee.
(b) With Licensee's share of any tax benefit derived by the parent from the filing of a consolidated tax return when the licensee has a taxable loss.
(c) With any other receivable due from parent arising from any other source.

Credit:
(a) With cash received from parent.
(b) With income taxes due from licensee but paid by the parent. (This credit can arise only as an offset to a previously recorded debit to this account; if there is no such debit balance, credit account no. 341.)

150 -- Current Maturities of Portfolio Securities

The account represents the principal amounts due the licensee on a cost basis of loans and debt securities of small businesses that are reasonably expected to be collected in the normal course of business in the next 12 months of operations.

Debit:
(a) With amount due the licensee during the current year.

Credit:
(a) With amount collected by the licensee.
(b) With amount not considered collectible on a current basis and restored to loan or debt security accounts.

(See account nos. 170, 180, and 184.)

152 -- Current Maturities of Assets Acquired in Liquidation of Portfolio Securities

This account represents the current principal amounts due the licensee on a cost basis of amounts due from debtors on sale of assets acquired; or the current principal amounts of their debt instruments that are classified as assets acquired in liquidation of portfolio securities. This account represents only those amounts reasonably expected to be collected in the normal course of business in the next 12 months of operations.

Debit:
(a) With amount due the licensee during the current year.

Credit:
(a) With amount collected by the licensee.
(b) With amount not considered collectible on a current basis and restored to the appropriate asset acquired in liquidation of portfolio securities account.

(See account nos. 200, 204.)

153 -- Current Maturities of Operating Concerns Acquired

This account represents the principal amounts due the licensee on a cost basis of debt instruments classified as operating concerns acquired that are reasonably expected to be collected in the normal course of business in the next 12 months of operations.

Debit:
(a) With amount due the licensee during the current year.

Credit:
(a) With amount collected by the licensee.
(b) With amount not considered collectible on a current basis and restored to other securities accounts.

(See account no. 210.)

154 -- Current Maturities of Other Securities

This account represents the principal amounts due the licensee on a cost basis of debt instruments classified as "other securities" that are reasonably expected to be collected in the normal course of business in the next 12 months of operations.

Debit:
(a) With amount due the licensee during the current year.

Credit:
(a) With amount collected by the licensee.
(b) With amount not considered collectible on a current basis and restored to other securities accounts.

(See accounts nos. 220 and 221.)

156 -- Other Current Assets

This account represents current assets not otherwise classified of the licensee that are expected to be converted to cash or expensed in the normal course of business in the next 12 months.

Debit:
(a) With amount of such asset.

Credit:
(a) With amount collected.
(b) With the proportionate amount allocated to the period as an expense.

160 -- Investment in Section 301(d) Licensee

This account represents the licensee's investment in capital stock of a specialized SBIC. The account will be maintained on the equity method of accounting.

Debit:
(a) With cost of capital stock of such Section 301(d) licensee.
(b) With the licensee's proportionate share of the Section 301(d) licensee's net income.

Credit:
(a) With the licensee's proportionate share of the Section 301(d) licensee's net loss.
(b) With cash dividends received or fair value of dividends in kind received.
(c) With the value on equity basis of stock in Section 301(d) licensee when sold.

170 -- Loans

This account represents the unpaid principal balance of Loans, as defined in 13 CFR 107.810.

Debit:
(a) With face amount of direct loans.
(b) With portion retained by licensee of loans in which participations were sold to others.
(c) With amount of participations in loans of others.
(d) With unpaid principal of loans represented by renewal notes accepted or notes taken in substitution for those held.
(e) With reversal of prior credits when checks received representing repayments are dishonored, etc.

Credit:

(a) With amount collected on face amount of direct loans.
(b) With licensee's share of amount collected on principal of loans in which participations were sold to others.
(c) With amount by which participations in loans are reduced by repayments transmitted by the "initiating" company.
(d) With unpaid principal of loans represented by notes renewed or for which other notes have been substituted.
(e) With amount transferred to assets acquired in liquidation of portfolio securities.
(f) With unpaid principal of loans sold, written off or disposed of otherwise.

Note 1. -- A participation is defined as an undivided interest shared with one or more other lenders or investors in a note, debenture, certificate of stock, or other instrument evidencing a loan to, or equity financing of, a small business.

Note 2. -- It is assumed that in all loan participation arrangements the "initiating" company will service the loans.

172 -- Depreciation of Loans

This account represents the downward valuation of loans and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation account will be adjusted as necessary.

Debit:
(a) With amount of decreases in depreciation.
(b) With amount of depreciation established in this account on loans that have been written off, sold or otherwise disposed of.

Credit:
(a) With amount of depreciation established.
(b) With amount of increases in depreciation.

173 -- Unearned Discount, Fees, and Other Charges on Loans

This contra account represents the amount of unearned discount, fees, and other charges included in the face amount of loans made to small businesses.

Debit:
(a) With amount of discount, fees, and other charges which have become earned through collection or passage of time.
(b) With amount of unearned discount, fee, and other charges which is rebated to borrowers upon early repayment of loans, or is closed into the asset account upon liquidation of loans at less than full amount.

Credit:
(a) With initial amount of unearned discount, fees, and other charges included in the face amount of loans.
(b) With unearned discount, fees, and other charges assigned to the licensee in connection with its participation in loans of other lenders.

Note 1. -- Unearned discount in this account will be transferred to account no. 512 -- Interest on loans, as it becomes earned; and unearned fees and other charges will be transferred to account no. 536 -- application and appraisal fees, under similar circumstances.

Note 2. -- Any fees and other charges considered earned immediately upon closing of loans will be recorded directly in the income account without first being entered in this account.

180 -- Debt Securities with Stock Purchase Warrants or Options, and/or Conversion Features

This account represents the unpaid principal balance of Debt Securities, as defined in 13 CFR 107.815. If the stock purchase warrants, options, or other stock rights have a separate purchase cost, or if a separate cost has otherwise been determined for them, the warrants, options, or other stock rights will be reflected at such cost in account no. 197.

Debit:
(a) With face amounts of debt securities acquired.
(b) With portion retained by licensee of debt securities in which participations were sold to others.
(c) With amount of participations in purchases by others of Debt Securities.
(d) With reversal of prior credits when checks received representing repayments are dishonored, etc.

Credit:
(a) With amount collected on face amount of debt securities.
(b) With licensee's share of amount collected on principal of debt securities in which participations were sold to others.
(c) With amounts by which participations in debt securities are reduced by repayments transmitted by the "initiating" company.
(d) With unpaid principal of debt securities converted into capital stock.
(e) With unpaid principal of debt securities which have been divested of stock rights through the expiration of the conversion privilege, the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or the detachment of detachable stock purchase warrants or options.
(f) With unpaid principal of debt securities transferred to assets acquired in liquidation of loans and debt securities.
(g) With unpaid principal of debt securities sold, written off or disposed of otherwise.

(See notes 1 and 2 to Account no. 170)

184 -- Debt Securities Divested of Stock Rights

This account represents the unpaid principal balance of debt securities which have been divested of stock rights through (1) the expiration of the conversion privilege of convertible debt securities, (2) the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options of debt securities, or (3) the detachment of detachable stock purchase warrants or options.

Debit:
(a) With unpaid principal of debt securities divested of stock rights.
(b) With portion retained by licensee of such debt securities in which participations were sold to others.
(c) With amount of participations in debt securities which have been subsequently divested of stock rights.
(d) With reversal of prior credits when checks received representing repayments are dishonored, etc.

Credit:
(a) With amount collected on face amount of debt securities divested of stock rights.
(b) With licensee's share of amount collected on principal of such debt securities in which participations were sold to others.
(c) With amount by which participations in such debt securities are reduced by repayments transmitted by the "initiating" company.
(d) With unpaid principal of such debt securities transferred to assets acquired in liquidation of loans and debt securities.
(e) With unpaid principal of such debt securities sold, written off or disposed of otherwise.

186 -- Appreciation of Debt Securities

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued debt securities with equity features above cost of such securities.

Debit:
(a) With amount of such appreciation recognized.
(b) With amount of increases in such appreciation recognized.

Credit:
(a) With decrease in amount of such appreciation resulting from decline in fair value of securities.
(b) With amount of appreciation established in this account for debt securities that have been sold or otherwise disposed of.

(See Note to account 187.)

187 -- Depreciation of Debt Securities

This account represents the downward valuation of debt securities and should be maintained in an amount not less than a conservative estimate of probable losses. This valuation reserve will be adjusted as occasion demands.

Debit:
(a) With amount of decreases in depreciation.
(b) With amount of depreciation established in this account for debt securities that have been written off, sold, or disposed of otherwise.

Credit:
(a) With amount of depreciation established.
(b) With amount of increases in depreciation.

Note -- When debt securities are sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and the appropriate investment account will be credited for the related asset cost. Any gain will be credited to Account no. 572 and any loss will be debited to Account no. 702. The amount of the reserve which was established in this account for the debt security sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

188 -- Unearned Discount, Fees and Other Charges on Debt Securities

This contra account represents the amount of unearned discount, fees, and other charges included in the face amount of debt securities acquired from small businesses.

Debit:
(a) With amount of discount, fees, and other charges which have become earned through collection or passage of time.
(b) With amount of unearned discount, fee, and other charges which is rebated to borrowers upon early repayment of debt securities, or is closed into the asset account upon liquidation of debt securities at less than full amount.

Credit:
(a) With initial amount of unearned discount (including that equivalent to the determined cost of warrants, options or other stock rights, as explained in Note 2 to account no. 197), fees, and other charges included in the face amount of debt securities.
(b) With initial amount of unearned discount (including that equivalent to the determined cost of warrants, options or other stock rights, as explained in Note 2 to account no. 197), fees, and other charges assigned to the licensee in connection with its participation in the purchase of debt securities by other investors.

Note 1. -- Unearned discount will be transferred to account no. 516 -- Interest on debt securities, as it becomes earned; unearned fees and other charges will be transferred to account no. 536 -- Application and appraisal fees, under similar circumstances.

Note 2. -- Any fees and other charges considered earned immediately upon closing of financing through purchase of debt securities will be recorded directly in the income account without first being entered in this account.

190 -- Capital Stock of Small Businesses, with Stock Purchase Warrants or Options, and/or Conversion Features

This account represents the licensee's cost to acquire capital stock of small businesses, when such capital stock has attached stock purchase warrants, options and/or conversion features (capital stock without such rights will recorded in account no. 191). If the warrants, options, or other stock rights have a separate purchase cost, or if a separate cost has otherwise been determined for them, such stock rights will be reflected at cost in account no. 197.

Debit:
(a) With cost of such capital stock acquired.
(b) With portion retained by licensee of such capital stock in which participations have been sold to others.
(c) With amount of licensee's participations in acquisitions by others of such capital stock.

Credit:
(a) With cost of such capital stock which has been divested of stock purchase rights through the expiration of the conversion privilege, the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or the detachment of detachable stock purchase warrants or options.
(b) With cost of such capital stock converted to another class of capital stock.
(c) With cost of such capital stock sold, written off or disposed of otherwise.

(See notes 1 and 2 to account no. 170.)

191 -- Capital Stock of Small Businesses -- Other

This account represents the licensee's cost to acquire capital stock of small businesses, when such capital stock is acquired without conversion privileges or stock purchase warrants or options; or licensee's cost of stock which has been divested of additional stock rights as the result of (1) the expiration of conversion privileges, (2) the exercise or the expiration of rights conveyed by nondetachable or detachable stock purchase warrants or options, or (3) the detachment of detachable stock purchase warrants or options.

Debit:
(a) With cost to acquire such capital stock.
(b) With cost of such capital stock transferred from account no. 191 upon divestment of additional stock rights.
(c) With portion retained by licensee of such capital stock in which participations have been sold to others.
(d) With amount of licensee's participations in such capital stock acquired by others.

Credit:
(a) With cost of such capital stock sold, written off or disposed of otherwise.

Note 1. -- The cost of capital stock acquired through the exercise of warrants or options will be the cost of the warrants or options surrendered plus the exercise price.

Note 2. -- Capital stock acquired through conversion of debt securities or shares of another class of stock will have the same cost as the converted security, plus any additional consideration required to effect the conversion.

192 -- Appreciation of Capital Stock

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued capital stock of small businesses above cost of such securities.

Debit:
(a) With amount of appreciation recognized.

Credit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities.
(b) With amount of appreciation established in this account on capital stock that has been sold or otherwise disposed of.

(See Note to account no. 193.)

193 -- Depreciation of Capital Stock

This account represents the downward valuation of capital stock of small businesses by the licensee's Board of Directors/General Partner(s). This account will be maintained in an amount not less than a conservative estimate of probable losses and will be adjusted as occasion demands.

Debit:
(a) With amount of decreases in depreciation.
(b) With amount of depreciation established in this account on capital stock that has been written off, sold, or disposed of otherwise.

Credit:
(a) With amount of depreciation recognized.

Note -- When capital stock is sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and the appropriate investment account will be credited for the related asset cost. Any gain will be credited to account no. 574 and any loss will be debited to account no. 704. The depreciation which was established in this account for the capital stock sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

194 -- Equity Interests of Unincorporated Concerns

This account represents the licensee's investment in equity interests of a small business organized as a limited partnership or other type of unincorporated concern. The equity method should ***not*** be used to account for such investments, as this method is incompatible with fair value accounting.

Debit:
(a) With cost of equity interest acquired.

Credit:
(a) With the licensee's proportionate share of cash distributions.
(b) With cost of equity interest sold, liquidated, written off or disposed of otherwise.

195 -- Appreciation of Equity Interest of Unincorporated Concerns

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued equity interests of unincorporated concerns above cost of such interests.

Debit:
(a) With amount of appreciation recognized.

Credit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities.

(b) With amount of appreciation established in this account on equity interests that have been sold, liquidated or otherwise disposed of.

(See Note to account 196.)

196 -- Depreciation of Equity Interests of Unincorporated Concerns

This account represents the downward valuation of equity interests of unincorporated concerns by the licensee's Board of Directors/General Partner(s). This account will be maintained in an amount not less than a conservative estimate of probable losses and will be adjusted as occasion demands.

Debit:
(a) With amount of decreases in depreciation.
(b) With amount of depreciation established in this account on equity interests that have been written off, sold, liquidated or disposed of otherwise.

Credit:
(a) With amount of depreciation recognized.

Note -- When equity interests in unincorporated concerns are sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and the appropriate investment account will be credited for the related asset cost. Any gain will be credited to account no. 575 and any loss will be debited to account no. 705. The depreciation which was established in this account for the capital stock sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

197 -- Warrants, Options, and Other Stock Rights Acquired from Small Businesses

This account represents the cost basis (purchase price or cost as otherwise determined under generally accepted accounting principles) of warrants, options, and other stock rights acquired by the licensee from small businesses.

Debit:
(a) With cost of such warrants, options, or other stock rights acquired.
(b) With portion retained by licensee of the warrants, options, or other stock rights in which participations are sold to others.
(c) With amount of licensee's participations in acquisitions by others of warrants, options, or other stock rights.

Credit:
(a) With cost of such warrants, options, or other stock rights surrendered in exercising the stock rights.
(b) With cost of such warrants, options, or other stock rights written off or disposed of otherwise.
(c) With cost of such warrants, options, or other stock rights for which the exercise period has expired.

Note -- Under generally accepted accounting principles (APB Opinion No. 14), the purchase price of a debt security with detachable warrants must be allocated between the two elements. The allocation should be based on the relative fair values of the two types of securities at the time of issuance. Any resulting discount on the debt securities should be credited to account no. 188 -- Unearned discount, fees, and other charges on debt securities.

198 -- Appreciation of Warrants, Options, and Other Stock Rights Acquired from Small Businesses

This account represents the amount by which the licensee's Board of Directors General Partner(s) has valued warrants, options and other stock rights above the cost of such securities.

Debit:
(a) With amount of appreciation recognized.

Credit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities.
(b) With amount of appreciation established in this account for warrants, options, and other stock rights that have been sold or otherwise disposed of.

(See Note to account no. 199.)

199 -- Depreciation of Warrants, Options, and Other Stock Rights Acquired from Small Businesses

This account represents the downward valuation of warrants, options and other stock rights by the licensee's Board of Directors/General Partner(s). This account will be maintained in an amount not less than a conservative estimate of probable losses and will be adjusted as occasion demands.

Debit:
(a) With amount of decreases in depreciation.
(b) With amount of depreciation established in this account for warrants, options, and other stock rights that have been written off, sold, or disposed of otherwise.

Credit:
(a) With amount of depreciation recognized.

Note -- When warrants, options or other stock rights are sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and the appropriate investment account will be credited for the related asset cost. Any gain will be credited to account no. 576 and any loss will be debited to account no. 706. The depreciation which was established in this account for the warrants, options or other stock rights sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

200 -- Receivables Arising from Sale of Assets Acquired in Liquidation of Portfolio Securities

This account represents the unpaid balance of accounts receivable, notes receivable, sales contracts, purchase money mortgages, and similar evidences of indebtedness to the licensee arising from the sale of assets acquired in liquidation of portfolio securities.

Debit:
(a) With amount of such receivables.

Credit:
(a) With amount collected on principal of such receivables.
(b) With unpaid principal balance written off or disposed of otherwise.

203 -- Depreciation of Receivables Arising from Sale of Assets Acquired in Liquidation of Portfolio Securities

This account represents the downward valuation by the licensee's Board of Directors/General Partner(s) of notes or other securities received on sale of assets acquired in liquidation of portfolio securities. This account will be maintained in an amount not less than a conservative estimate of probable losses and will be adjusted as occasion demands.

Debit:
(a) With amount of decreases in depreciation of such receivables.

(b) With amount of depreciation established in this account on receivables that have been written off, sold, or disposed of otherwise.

Credit:
(a) With amount of depreciation recognized.

204 -- Assets Acquired in Liquidation of Portfolio Securities

This account represents the licensee's investment in assets acquired by foreclosure, or otherwise, in liquidation of portfolio securities. Judgments, sheriffs' certificates (including property acquired subject to redemption), etc., will be reflected in this account.

Property acquired in this manner will be recorded at an amount no higher than the outstanding principal balance of the related portfolio securities. If this amount exceeds the net realizable value of the property, then the property will be recorded at its net realizable value and a loss will be recognized on the liquidated portfolio securities. Mortgaged real property will be recorded in this account at gross value, with the amount of the existing mortgage or mortgages reflected in account no. 313. Judgments will be recorded at their face amount.

Debit:
(a) With amount of the licensee's investment in asset at time of acquisition.
(b) With amount of the licensee's investment in asset at date of judgment, sheriff's certificate, etc.
(c) With amount of licensee's participation in assets acquired by others in liquidation of portfolio securities.

Credit:
(a) With proceeds of partial sale of assets.
(b) With amount of the licensee's investment at date of sale or other disposition of assets.
(c) With amount written off.

Note -- Collateral notes receivable acquired in the liquidation of portfolio securities will be reflected in this account; but notes receivable that are subsequently accepted in connection with the disposition of assets acquired in the liquidation of portfolio securities will be included in account no. 200 -- Receivables from debtors on sale of assets acquired in liquidation of portfolio securities.

(See account nos. 170, 180, 184, and 200.)

205 -- Appreciation of Assets Acquired in Liquidation of Portfolio Securities

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued assets acquired above their cost basis as recorded in account no. 204.

Debit:
(a) With amount of appreciation recognized.

Credit:
(a) With decrease in amount of appreciation resulting from decline in fair value of such assets.
(b) With amount of appreciation established in this account on such assets that have been sold or otherwise disposed of.

(See Note to account no. 206.)

206 -- Depreciation of Assets Acquired in Liquidation of Portfolio Securities

This account represents the downward valuation by the licensee's Board of Directors/General Partner(s) of assets acquired in liquidation of portfolio securities. This account will be maintained in an amount not less than a conservative estimate of probable losses and will be adjusted as occasion demands.

Debit:
(a) With amount of decreases in depreciation of such assets.
(b) With amount of depreciation established in this account on such assets that have been written off, sold, or disposed of otherwise.

Credit:
(a) With amount of depreciation recognized.

Note -- When assets acquired in liquidation of portfolio securities are sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and account no. 204 will be credited for the related asset cost. Any gain will be credited to account no. 577 and any loss will be debited to account no. 707. The depreciation which was established in this account for the assets sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

210 -- Operating Concerns Acquired

A licensee may take action to protect its investment in a portfolio concern and as a result may acquire a controlling interest in an operating concern. In such cases, the licensee will reclassify the aggregate amount due from the portfolio concern to this account. If the concern has ceased operations and is being liquidated, the aggregate amount due from the portfolio concern will be classified as assets acquired in liquidation of portfolio securities (account no. 204) rather than this account.

Debit:
(a) With total amount of the licensee's investment in the operating concern at the time of the acquisition.
(b) With additional financing provided by the licensee.

Credit:
(a) With amount collected from such operating concern.
(b) With proportionate cost of interest sold or disposed of otherwise.
(c) With amounts written off.

(See account nos. 211 and 212.)

211 -- Appreciation of Operating Concerns Acquired

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued securities of operating concerns acquired above their cost basis

Debit:
(a) With amount of appreciation recognized.

Credit:
(a) With decrease in amount of appreciation resulting from decline in fair value of such securities.
(b) With amount of appreciation established in this account on such securities that have been sold or otherwise disposed of.

(See Note to account no. 212.)

212 -- Depreciation of Operating Concerns Acquired

his account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued securities of operating concerns acquired below cost of such securities.

Debit:
(a) With decreases in amount of such depreciation resulting from increases in fair value of such securities.
(b) With amount of depreciation established in this account on such securities that have been sold, written off or otherwise disposed of.

Credit:
(a) With amount of such depreciation recognized.

Note -- When operating concerns acquired are sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and account no. 210 will be credited for the related asset cost. Any gain will be credited to account no. 578 and any loss will be debited to account no. 708. The depreciation which was established in this account for the assets sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

220 -- Notes and Other Securities Received on Sale of Portfolio Securities

This account represents the securities taken by the licensee as part of the net sales price of portfolio securities sold.

Debit:
(a) With assigned cost of such securities when acquired.

Credit:
(a) With cost of such securities when sold.
(b) With cost of such securities when written off or disposed of otherwise.

(See accounts 221, 222, and 223.)

221 -- Other Securities Received

This account represents securities received by the licensee for which no funds were provided and which would not otherwise be classified as loans and investments. An example of such securities would be a dividend in kind received by licensee from a portfolio concern.

Debit:
(a) With fair value of such securities when received.

Credit:
(b) With carrying value of such securities when sold, written off or disposed of otherwise.

(See accounts 220, 222, and 223.)

222 -- Appreciation of Other Securities

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued securities recorded in accounts no. 220 and 221 above licensee's cost basis.

Debit:
(a) With amount of such appreciation recognized.

Credit:
(a) With decrease in amount of such appreciation resulting from decline in fair value of securities.
(b) With amount of appreciation established in this account on other securities that have been sold or otherwise disposed of.

(See Note to account no. 223.)

223 -- Depreciation of Other Securities

This account represents the amount by which the licensee's Board of Directors/General Partner(s) has valued securities recorded in accounts no. 220 and 221 below licensee's cost basis.

Debit:
(a) With decreases in amount of such depreciation resulting from increase in fair value of such securities.
(b) With amount of depreciation established in this account on other securities that have been sold, written off or otherwise disposed of.

Credit:
(a) With amount of such depreciation recognized.

Note -- When "other securities" are sold or otherwise disposed of, cash or other appropriate asset account will be debited for the amount received, and account no. 220 or 221 will be credited for the related asset cost. Any gain will be credited to account no. 579 and any loss will be debited to account no. 709. The depreciation which was established in this account for the assets sold or disposed of otherwise will be reversed and offset against the appropriate unrealized depreciation account in the capital section (e.g., account no. 445 -- Stockholders' Unrealized Depreciation on Loans and Investments).

230 -- Prepaid Expenses

This account represents the unexpired or unconsumed portion of expenses applicable to future periods for which no specific accounts have been provided. Such expenses should be amortized over the period during which benefits will be realized.

Debit:
(a) With amount of prepaid expenses.

Credit:
(a) With amounts amortized to expense.

240 -- Furniture and Equipment

This account represents the cost of furniture, fixtures, and equipment, including automobiles, owned by the licensee.

Debit:
(a) With cost of such assets purchased.

Credit:

(a) With cost of such assets sold or otherwise disposed of.

241 -- Accumulated Depreciation on Furniture and Equipment

This account represents the valuation reserve provided for depreciation of furniture, fixtures and equipment, including automobiles, owned by the licensee. This account should be maintained in an amount not less than a conservative estimate of the expired service life of such assets while owned by the licensee.

Debit:
(a) With amount of depreciation accumulated on assets sold or disposed of otherwise.

Credit:
(a) With periodic depreciation.

250 -- Business Premises Owned

This account represents the actual cost of acquisition of real property used as the licensee's place of business. The account also will include the actual cost of any improvements applicable to the property.

Debit:
(a) With acquisition cost of real property.
(b) With cost of any improvement to property.

Credit:
(a) With the acquisition cost of real property, plus cost of improvements made thereto, when the property is sold or disposed of otherwise.

251 -- Accumulated Depreciation on Business Premises Owned

This account represents the valuation reserve provided for depreciation of the premises (including depreciable improvements) owned and used as the licensee's place of business. This account should be maintained in an amount not less than a conservative estimate of the expired service life of such property and improvements while owned by the licensee.

Debit:
(a) With amount of depreciation accumulated on assets sold or disposed of otherwise.

Credit:
(a) With periodic depreciation.

252 -- Leasehold Improvements

This account represents the cost of improvements to leased premises used as the licensee's place of business. The amount of this account will be amortized through account no. 656 over the life of the lease or the life of the improvements, whichever is shorter.

Debit:
(a) With cost of leasehold improvements.

Credit:
(a) With periodic amortization.
(b) With cost of leasehold improvements written off.

260 -- Deferred Tax Asset

This account represents the deferred tax consequences attributable to deductible temporary differences and carryforwards in accordance with FASB Statement 109. Such deductible temporary differences are differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in future deductible amounts when the reported amount of the asset or liability is recovered or settled, respectively. A licensee must reduce a deferred tax asset by a valuation allowance if, based on available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized (see account 261).

Debit:
(a) With the amount of the deferred tax asset.

Credit:
(a) With deductible amount realized which had previously been recorded as a deferred tax asset.

261 -- Valuation Allowance for Deferred Tax Asset

This account represents a valuation allowance established in accordance with FASB Statement 109 as a reduction of a deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized.

Debit:
(a) With amount of a decrease in valuation allowance for a deferred tax asset.
(b) With amount of valuation allowance when a deferred tax asset is realized or expires.

Credit:
(a) With amount of valuation allowance established for a deferred tax asset.
(b) With amount of increase in valuation allowance for a deferred tax asset.

275 -- Amounts Due from Directors, Officers, Owners, Employees, etc.

This account represents the unpaid balance of amounts advanced to directors, officers, shareholders, general partners, limited partners and employees.

Debit:
(a) With amount of such advances made.

Credit:
(a) With amount collected on such advances.
(b) With amount transferred to appropriate expense classification upon proper authorization.
(c) With amount written off or disposed of otherwise.

277 -- Funds in Escrow

This account represents the amount of funds placed in escrow (e.g., funds escrowed pending the closing of a financing).

Debit:
(a) With amount of funds placed in escrow.

Credit:
(a) With amount of funds withdrawn from escrow.

278 -- Deferred Financing Costs

This account represents the unamortized balance of fees paid to SBA and other parties (such as underwriters) in connection with licensee's issuance of SBA-guaranteed debentures or participating securities. Leverage fees paid on debentures should be amortized over the life of the instruments (generally 10 years). Leverage fees paid on participating securities may be amortized over not less than 5 years.

Debit:
(a) With amount of fees paid.

Credit:
(a) With periodic amortization expense.

279 -- Other Assets

This account represents miscellaneous assets of the licensee for which no specific account has been provided.

Debit:
(a) With amount of the licensee's investment in such assets.

Credit:
(a) With amount of such assets sold or disposed of otherwise.

<u>Liability Accounts</u>

300 -- Notes Payable to SBA

This account represents the long-term principal balance of notes payable (1) for funds borrowed and received directly from the Small Business Administration, and (2) for funds borrowed from others through guaranteed loans which subsequently have been purchased by the Small Business Administration.

Debit:
(a) With amount of principal payments made on such notes.
(b) With amount of principal transferred to current maturities.

Credit:
(a) With amount of funds borrowed.
(b) With unpaid principal balance of guaranteed loans purchased by SBA (contra debit will be made to account no. 310).

(See account no. 330.)

301 -- Debentures Payable to SBA

This account represents the long-term outstanding principal balance of debentures issued to the Small Business Administration.

Debit:
(a) With amount of principal payments made to SBA on such debentures.
(b) With amount of principal transferred to current maturities.

Credit:
(a) With face amount of such debentures issued.

(See account no. 330.)

310 -- Debentures Guaranteed by SBA

This account represents the long-term outstanding principal balance of debentures guaranteed by the Small Business Administration.

Debit:
(a) With amount of principal payments made on such debentures.
(b) With unpaid principal balance of such debentures purchased by SBA (contra credit will be made to account no. 300).
(c) With amount of principal transferred to current maturities.

Credit:
(a) With face amount of such debentures issued.

(See account no. 330.)

311 -- Long-Term Non-SBA Debt

This account represents the long-term outstanding principal balance of notes neither payable to nor guaranteed by the Small Business Administration.

Debit:
(a) With amount of principal payments made on such notes.
(b) With amount of principal transferred to current maturities.

Credit:
(a) With amount of funds borrowed.

(See account no. 331.)

312 -- Mortgages Payable

This account represents the long-term outstanding principal balance of mortgages payable on real estate owned by the licensee, other than real estate acquired in liquidation of portfolio securities (see account no. 313).

Debit:
(a) With amount of principal payments made on such indebtedness.
(b) With amount of principal transferred to current maturities.

Credit:
(a) With amount of funds borrowed.

(See account no. 331.)

313 -- Mortgages Payable on Assets Acquired in Liquidation of Portfolio Securities

This account represents the outstanding principal balance of existing mortgages payable on assets acquired by the licensee in liquidation of portfolio securities.

Debit:

(a) With amount of principal payments made on such indebtedness.

Credit:
(a) With amount of such indebtedness.

(See account no. 204.)

320 -- Notes Payable -- Other
This account represents the outstanding principal balance of miscellaneous notes payable for which no specific account has been provided.

Debit:
(a) With amount of principal payments made on such notes.

Credit:
(a) With principal amount of such notes executed.

330 -- Current Maturities of Notes and Debentures Payable to or Guaranteed by SBA
This account represents the principal amount due on a current basis (payable by the licensee in the next 12 months of operations) of long-term debt shown in accounts 300, 301 and 310.

Debit:
(a) With amounts paid by the licensee or disposed of otherwise.

Credit:
(a) With amounts that become due on a current basis.

(See account nos. 300, 301, and 310.)

331 -- Current Maturities of Non-SBA Debt
This account represents the principal amount due on a current basis (payable by the licensee in the next 12 months of operations) of long-term debt shown in accounts 311 through 313.

Debit:
(a) With amounts paid by the licensee or disposed of otherwise.

Credit:
(a) With amounts that become due on a current basis.

(See account nos. 311 through 313.)

340 -- Accounts Payable
This account represents amounts payable on open account. The account also may include miscellaneous current payables for which no specific account has been provided.

Debit:
(a) With amount of such indebtedness paid, or disposed of otherwise.

Credit:

(a) With amount of such indebtedness incurred.

341 -- Accounts Payable Due Parent, Shareholders or Partners

This account represents payables due to licensee's parent or other shareholders or partners. Payables to parent generally arise from one of two sources: (1) Reimbursement due to parent for expenses paid on licensee's behalf, and/or (2) filing of a consolidated tax return with parent when licensee has taxable income.

Debit:
(a) With cash payments to parent.
(b) With licensee's share of any tax benefit resulting from the filing of a consolidated tax return with the parent when licensee has a taxable loss. (This debit can arise only as an offset to a previously recorded credit to this account; if there is no such credit balance, debit account no. 146.)

Credit:
(a) With expenses paid by parent to be reimbursed by licensee.
(b) With licensee's share of any tax liability resulting from the filing of a consolidated tax return with the parent when licensee has taxable income.
(c) With payables due parent or other shareholders or partners arising from any other source.

350 -- Accrued Interest Payable

This account represents the licensee's liability for interest accrued on its notes, mortgages, debentures and other interest-bearing obligations.

Debit:
(a) With amount of such interest paid.

Credit:
(a) With amount of such interest accrued on all interest-bearing obligations covered by this account.

351 -- Accrued Taxes

This account represents the balance of accrued payroll taxes, such as the licensee's share of social security taxes, which have not been remitted to the appropriate collectors of such taxes.

Debit:
(a) With amount of such taxes paid.

Credit:
(a) With amount of such taxes accrued.

(See account no. 664.)

354 -- Estimated Income Taxes Accrued

This account includes the balances in subaccount nos. 354.1, 354.2, 354.3, etc.

354.1 Estimated Federal Income Taxes Accrued -- This account represents the balance of estimated Federal income taxes accrued which have not been remitted to the Internal Revenue Service.

Debit:
(a) With amount of such taxes paid.

Credit:
(a) With amount of such taxes accrued.

354.2 Estimated State Income Taxes Accrued -- This account represents the balance of estimated State income taxes accrued which have not been remitted to the appropriate collector of such taxes.

Debit:
(a) With amount of such taxes paid.

Credit:
(a) With amount of such taxes accrued.

358 -- Other Current Liabilities
This account represents other current liabilities not provided for in other accounts.

Debit:
(a) With amounts paid or disposed or otherwise.

Credit:
(a) With amounts accrued.

360 - 364 -- Dividends Payable on Capital Stock (By Class)
These accounts represent a corporate licensee's liability for dividends declared by its Board of Directors on the respective types and classes of capital stock issued and outstanding. A separate account should be used to reflect the dividends payable for each type and class of capital stock outstanding.

Debit:
(a) With amount of dividends paid.

Credit:
(a) With amount of dividends declared.

365 - 369 -- Partnership Distributions Payable to General Partners/Limited Partners

Debit:
(a) With amount of distributions paid.

Credit:
(a) With amount of distributions accrued.

370 -- Employee Taxes Withheld
This account represents the amount of income and payroll taxes withheld from employees' salaries which have not been remitted to the appropriate collectors of such taxes.

Debit:
(a) With amount of such taxes remitted.

Credit:

(a) With amount of such taxes withheld.

374 -- Unapplied Receipts

This account represents funds received by the licensee which have not been applied to loans, debt securities, interest receivable, etc. This account will be used only in instances when the funds received cannot be applied promptly.

Debit:
(a) With amount of such funds applied or disposed of otherwise.

Credit:
(a) With amount of funds received which cannot be applied promptly.

378 -- Miscellaneous Trust Receipts

This account represents the liability of the licensee for miscellaneous funds withheld or received in trust, including earnest money deposits, and funds withheld from employees' salaries for payment of group insurance premiums, pension fund contributions, etc. The account will also include amounts due other companies that are participants in financing where the licensee is the sponsor and is servicing the debt.

Debit:
(a) With amount of such funds disbursed or disposed of otherwise.

Credit:
(a) With amount of such funds withheld or received.

380 -- Deferred Tax Liability

This account represents the deferred tax consequences attributable to taxable temporary differences in accordance with FASB Statement 109. Such taxable temporary differences are between the tax basis of an asset or liability and its reported amount in the financial statements that will result in future taxable amounts when the reported amount of the asset or liability is recovered or settled, respectively.

Debit:
(a) With the amount of taxes paid which had previously been deferred.

Credit:
(a) With the amount of deferred tax liability.

(See accounts 260, 261 and 448.)

383 -- Other Deferred Credits

This account represents the amount of deferred credits of the licensee not specifically provided for in other accounts.
The account will include any gain on sale of assets which does not qualify as realized gain.

Debit:
(a) With amount of such deferred credits transferred to income or gain, or disposed of otherwise.

Credit:
(a) With amount of such deferred credits established.

(See Note 2 to account no. 143.)

Note 1. -- Deferred gain in this account will be transferred to appropriate gain accounts as it is realized.

390 -- Other Liabilities

This account represents liabilities of the licensee not specifically provided for in other accounts.

Debit:
(a) With amount of such liabilities paid or disposed of otherwise.

Credit:
(a) With amount of such liabilities incurred.

Capital Accounts

400 - 404 Capital Stock

These accounts represent the total par or stated value of the capital stock issued. A separate account should be provided for each type and class of capital stock.

Debit:
(a) With par value of capital stock retired.

Credit:
(a) With par value of capital stock issued.

406 - 407 Capital Stock Subscribed.

These accounts represent the total amount at the subscription price of the licensee's capital stock subscribed. A separate account should be provided for each type and class of capital stock subscribed. These accounts reflect the licensee's responsibility to issue shares of its stock to subscribers who have made final payment of their capital stock subscriptions.

Debit:
(a) With amount at the subscription price of subscribed capital stock issued (credit will be made to accounts nos. 400 - 404).
(b) With amount at the subscription price of subscribed capital stock canceled or disposed of otherwise.

Credit:
(a) With amount at the subscription price of capital stock subscribed.

(See account nos. 409 - 410.)

409 - 410 -- Capital Stock Subscriptions Receivable

These accounts represent the total unpaid balances of capital stock subscriptions receivable from subscribers of the licensee's capital stock. A separate subscriptions receivable account should be provided for each type and class of capital stock subscribed.

Debit:
(a) With amount of capital stock subscribed.

Credit:
(a) With amount collected on capital stock subscriptions.
(b) With amount of capital stock subscriptions canceled or disposed of otherwise.

(See account nos. 406 - 407.)

412 - 414 -- Treasury Stock

These accounts represent the total amount of the licensee's issued capital stock which has been reacquired through purchase or donation and has not been retired. A separate account should be provided for each type and class of such capital stock held by the licensee. The debits and credits listed below are based on the cost method of accounting for treasury stock.

Debit:
(a) With cost of treasury stock purchased.
(b) With fair market value of treasury stock acquired through donation (credit account no. 416, Paid-in Surplus).

Credit:
(a) With cost of treasury stock reissued or retired.

416 -- Paid-in Surplus

This account represents the amount of surplus arising from: (1) initial sale of the licensee's capital stock at a price in excess of par value; (2) donations to the licensee of its issued capital stock carried as treasury stock; (3) retirements of capital stock purchased at less than its par value; (4) sales of treasury stock in excess of its carrying value on the books of the licensee; (5) donations or gifts to the licensee of assets carried at not more than their fair market value; and (6) other equity transactions with stockholders.

Debit:
(a) With amount of loss on treasury stock reissued, but not to exceed the paid-in surplus attributable to such stock or to treasury stock previously reissued or retired (any additional loss will be charged to account no. 451).
(b) With amount paid in excess of par value to acquire capital stock to be retired, but not to exceed the paid-in surplus attributable to such stock (any additional loss will be charged to account no. 451).

Credit:
(a) With amount paid in representing the excess (after deduction of underwriters' fees, commissions and related expenses) over par value of the licensee's capital stock, when shares are issued.
(b) With amount received by licensee in excess of cost for treasury stock reissued.
(c) With par value of capital stock acquired through donation and retired by licensee.
(d) With amount of discount below original issue price of capital stock repurchased by licensee and retired.
(e) With amount not to exceed fair market value of donations or gifts of assets to the licensee.

418 -- Restricted Contributed Capital Surplus

This account will be used by Section 301(d) Licensees which have repurchased their 3 percent preferred stock from SBA. The account represents the amount by which the par value of the stock exceeds the repurchase price. At the time of repurchase, SBA is granted a preferential liquidating interest in this equity account. The liquidating interest is reported in the form of a footnote and declines on a straight-line basis over time (see memorandum account PLI - 1).

Note: This account will **NOT** be debited under normal conditions. Specifically, there will be **NO DEBIT** to the account as SBA's liquidating interest in this account is amortized. The amount credited at the time of the repurchase of 3 percent preferred stock will remain as a permanent balance in this account until the licensee is liquidated.

Credit:
(a) With the amount by which the par value exceeds the repurchase price of 3 percent preferred stock repurchased from SBA by the Section 301(d) Licensee.

420 – 3 Percent Preferred Stock (Issued to SBA)

This account will be used by Section 301(d) licensees only. The account represents 3 percent preferred stock sold at par value to SBA. Such stock is not included in Regulatory or Leverageable Capital, as defined in 13 CFR 107.50.

Debit:
(a) With the par value of 3 percent preferred stock redeemed or repurchased by the licensee.

Credit:
(a) With the par value of 3 percent preferred stock sold to SBA by the licensee.

430 -- 4 Percent Preferred Stock (Issued to SBA)

This account will be used by Section 301(d) Licensees only. The account represents preferred stock sold at par value to SBA on or after November 21, 1989. Such stock is not included in Regulatory or Leverageable Capital, as defined in 13 CFR 107.50. The stock must be redeemed by the Licensee no later than 15 years after the date of issuance at par value, plus any unpaid dividends accrued to the date of redemption. Dividends accrue at an annual rate of 4 percent on this preferred stock. Dividends accrued for a given period but undeclared by the Licensee are accumulated in account 431 -- Cumulative undeclared 4 percent dividends. Such accumulated undeclared dividends are added to the carrying amount of 4 percent preferred stock until declared (see account no. 431).

Debit:
(a) With the par value of 4 percent preferred stock redeemed by the Licensee.

Credit:
(a) With the par value of 4 percent preferred stock sold to SBA.

431 -- Cumulative Undeclared 4 Percent Dividends

This account will be used by Section 301(d) Licensees which have sold 4 percent preferred stock to SBA. The account represents the cumulative amount of undeclared 4 percent dividends in arrears. This cumulative amount of undeclared dividends will be recorded as a charge against undistributed net realized earnings and is added to the carrying amount of the 4 percent preferred stock. These dividends in arrears must be paid no later than the date of redemption of the preferred stock. The 4 percent preferred stock has a mandatory redemption date of no later than 15 years after the date of issuance.

Debit:
(a) With the amount of dividends currently declared which had previously been credited to this account as undeclared accrued dividends.

Credit:
(a) With the amount of 4 percent preferred stock dividends accrued but undeclared for a given period. The corresponding debit is to account 451 - Stockholders' undistributed net realized earnings.

432 -- 4 Percent Preferred Limited Partnership Interests

This account will be used by partnership Section 301(d) Licensees. The account represents preferred limited partnership interests sold to SBA on or after November 21, 1989. These interests must be redeemed by the licensee no later than 15 years after the date of issuance at the original purchase price plus any accumulated returns due SBA. Such returns accrue at an annual rate of 4 percent. Any 4 percent returns accrued but unpaid are accumulated in account 433 - Cumulative 4 percent returns due on preferred limited partnership interests. These accumulated returns are added to the carrying amount of the 4 percent preferred limited partnership interests until the distributions are made (see account 433).

Debit:
(a) With the issue price of 4 percent preferred limited partnership interests redeemed by Licensee.

Credit:
(a) With the issue price of 4 percent preferred limited partnership interests sold to SBA.

433 -- Cumulative 4 Percent Returns Due on Preferred Limited Partnership Interests

This account will be used by partnership Section 301(d) Licensees which have sold 4 percent preferred limited partnership interests to SBA. The account represents the cumulative amount of unpaid 4 percent returns in arrears. This cumulative amount of returns will be recorded as a charge against undistributed net realized earnings and is added to the carrying amount of 4 percent preferred limited partnership interests. The accumulated returns must be paid no later than the date of redemption of the securities. The 4 percent preferred limited partnership interests have a mandatory redemption date of no later than 15 years after the date of issuance.

Debit:
(a) With the amount of 4 percent returns paid in the current period which had previously been credited to this account as unpaid accumulated 4 percent returns.

Credit:
(a) With the amount of returns accrued at an annual rate of 4 percent on preferred limited partnership interests for a given period. The corresponding debits will be to account nos. 493, 494 and 496.

434 -- Participating Securities (Partnership)

This account will be used by partnership licensees which have issued Participating Securities and represents the carrying amount of the issued securities (original issue price less any amounts redeemed). These securities take the form of preferred limited partnership interests, with SBA as the preferred limited partner. The securities must be redeemed by the partnership no later than the redemption date (generally 10 years from the date of issue) at the Redemption Price plus any unpaid Earned Prioritized Payments and any additional earned amounts due pursuant to SBA regulations.

Debit:
(a) With amount of Participating Securities redeemed.

Credit:
(a) With original issue price of Participating Securities.

435 -- Prioritized Payments Distribution Account

This account will be used by partnership licensees which have issued Participating Securities and represents the total amount of Earned Prioritized Payments, earned Adjustments and earned Charges allocated to SBA in accordance with 13 CFR 107.1520, but not yet paid. Licensees are required to pay the balance in this account before any distributions can be made to their private investors.

Debit:
(a) With the amount of any payments made by the licensee representing Earned Prioritized Payments, Adjustments and Charges.

Credit:
(a) With the amount of any Prioritized Payments which have become Earned (see 13 CFR 107.1500 and 107.1520).
(b) With the amount of any Adjustments or Charges which have become Earned(see 13 CFR 107.1500 and 107.1520).

436 -- Profit Participation Allocated to SBA

This account will be used by partnership licensees which have issued Participating Securities and represents the amount of Profit Participation allocated to SBA under 13 CFR 107.1530, but not yet distributed. Distributions of allocated Profit Participation amounts to SBA are to coincide with distributions to private investors made in accordance with 13 CFR 107.1550, 107.1560 or 107.1570(a).

Debit:
(a) With distributions of Profit Participation allocated to SBA.

Credit:
(a) With Profit Participation allocated to SBA.

440 -- Unrealized Appreciation on Investments--Corporations

This is a credit balance account and represents the aggregate amount by which a corporate licensee's Board of Directors/General Partner(s) has valued the licensee's investments above cost.

Debit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities held.
(b) With amount of appreciation attributable to securities sold or disposed of otherwise.

Credit:
(a) With amount of appreciation recognized.

(See account nos. 186, 192, 195, 198, 205, 211 and 222.)

445 -- Unrealized Depreciation on Loans and Investments--Corporations

This is a debit balance account and represents the aggregate amount by which a corporate licensee's Board of Directors/General Partner(s) has valued the licensee's loans and investments below cost.

Debit:
(a) With amount of depreciation recognized.

Credit:
(a) With decrease in the amount of depreciation resulting from increase in fair value of securities held.
(b) With amount of depreciation attributable to securities sold or disposed of otherwise.

(See account nos. 172, 187, 193, 196, 199, 203, 206, 212 and 223.)

448 -- Estimated Taxes on Net Unrealized Gain (Loss) on Securities Held

This account represents an estimated income tax provision or benefit on net unrealized appreciation or depreciation recorded in account nos. 440 and/or 445. As the valuation of securities changes, the provisions for taxes will change.

Debit:
(a) With tax provisions attributable to net unrealized gain.
(b) With decreases in established tax benefits resulting from change in valuation of securities.
(c) With established tax benefits attributable to securities sold, written off or disposed of otherwise.

Credit:
(a) With tax benefits attributable to net unrealized loss (subject to likelihood of realization--see account nos. 260 and 261).
(b) With decreases in established tax provisions resulting from change in valuation of securities.
(c) With established tax provisions attributable to securities sold or disposed of otherwise.

(See account nos. 260 and 380.)

450 -- Noncash Gains/Income--Corporations

This is a credit balance account and represents a corporate licensee's realized gains and income that have not been converted to cash (see "Accounting Standards and Financial Reporting Requirements for SBICs, section V, paragraph X). While considered to be undistributed earnings, amounts in this account will not be available for distributions or capitalization. Therefore, such amounts are considered restricted undistributed realized earnings.

Debit:
(a) With amount of cash collected of noncash gains/income previously recognized.
(b) With amount of noncash gains/income written off or disposed of otherwise.

Credit:
(a) With amounts of noncash gain/income recognized.

451 -- Undistributed Net Realized Earnings (Loss)--Corporations

This account represents the cumulative balance of periodic net income (loss) for a corporate licensee, including realized gain (loss) on securities sold, less dividend distributions, and excluding non-cash gains/income which are included in account no. 450.

Debit:
(a) At end of the fiscal year, with the debit balance of all income and expense accounts, and accounts representing gains and losses on portfolio securities.
(b) With amount of cash dividends (or fair value at declaration date of in-kind dividends) declared payable out of undistributed net realized earnings by the licensee's Board of Directors.
(c) With loss on reissuance of treasury stock which exceeds paid-in surplus attributable to such stock or to treasury stock previously reissued or retired (see account no. 416).
(d) With amount paid in excess of par plus paid-in surplus recorded at the time of issuance, to acquire capital stock to be retired.
(e) With amount of dividends accrued for a period, but not yet declared, on 4 percent preferred stock sold to SBA by a Section 301(d) Licensee.

Credit:

(a) At end of the fiscal year, with the credit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities, except for credit balances representing non-cash gains/income (see account no. 450).

452 -- Year-to-date Net Income (Loss)--Corporations

This account may be used to accumulate a corporate licensee's year-to-date balance of net income (loss). Any balance in this account should be closed at the end of the fiscal year to the appropriate Undistributed Net Realized Earnings (Loss) or Noncash Gains/Income account.

Debit:
(a) For any given closing date within a fiscal year, with the year-to-date debit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.

Credit:
(a) For any given closing date within a fiscal year, with the year-to-date credit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.

471 -- Entity General Partners' Permanent Capital Contribution

This account represents the capital actually contributed to a partnership licensee by an "entity" general partner, which may be a corporation, limited partnership or limited liability company. The account does not include unfunded commitments of the entity general partner.

Debit:
(a) With amount of any withdrawal during the fiscal period of capital contributions.

Credit:
(a) With amount of additional capital contributed by the entity general partner.

472 -- Individual general Partners' Permanent Capital Contribution

This account represents the capital actually contributed to a partnership licensee by one or more individual general partners. The account does not include unfunded commitments of the individual general partner.

Debit:
(a) With amount of any withdrawals during the fiscal period of capital contributions.

Credit:
(a) With amount of additional capital contributed by an individual general partner.

476 -- Limited Partners' Permanent Capital Contribution

This account represents the capital actually contributed to a partnership licensee by limited partners. The account does not include unfunded commitments of the limited partners.

Debit:
(a) With the amount of any withdrawals during the fiscal period of capital contributions.

Credit:
(a) With the amount of additional capital contributed by limited partners.

481 -- Entity General Partners' Unrealized Appreciation on Investments

This is a credit balance account representing the entity general partner's share of the aggregate amount by which the general partner(s) has valued the licensee's investments above cost.

Debit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities held.
(b) With amount of appreciation attributable to securities sold or disposed of otherwise.

Credit:
(a) With amount of appreciation recognized.

(See account nos. 186, 192, 195, 198, 205, 211 and 222.)

482 -- Individual General Partners' Unrealized Appreciation on Investments

This is a credit balance account representing the individual general partners' share of the aggregate amount by which the general partner(s) has valued the licensee's investments above cost.

Debit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities held.
(b) With amount of appreciation attributable to securities sold or disposed of otherwise.

Credit:
(a) With amount of appreciation recognized.

(See account nos. 186, 192, 195, 198, 205, 211 and 222.)

483 -- Entity General Partners' Unrealized Depreciation on Loans and Investments

This is a debit balance account and represents the entity general partners share of the amount by which the general partner(s) has valued the licensee's loans and investments below cost.

Debit:
(a) With amount of depreciation recognized.

Credit:
(a) With decrease in the amount of depreciation resulting from increase in fair value of securities held.
(b) With amount of depreciation attributable to securities sold or disposed of otherwise.

(See account nos. 172, 187, 193, 196, 199, 203, 206, 212 and 223.)

484 -- Individual General Partners' Unrealized Depreciation on Loans and Investments

This is a debit balance account and represents the individual general partners' share of the aggregate amount by which the general partner(s) has valued the licensee's loans and investments below cost.

Debit:
(a) With amount of depreciation recognized.

Credit:
(a) With decrease in the amount of depreciation resulting from increase in fair value of securities held.
(b) With amount of depreciation attributable to securities sold or disposed of otherwise.

(See account nos. 172, 187, 193, 196, 199, 203, 206, 212 and 223.)

485 -- Limited Partners' Unrealized Appreciation on Investments

This is a credit balance account and represents the limited partners share of the aggregate amount by which the general partner(s) has valued the licensee's investments above cost.

Debit:
(a) With decrease in amount of appreciation resulting from decline in fair value of securities held.
(b) With amount of appreciation attributable to securities sold or disposed of otherwise.

Credit:
(a) With amount of appreciation recognized.

(See account nos. 186, 192, 195, 198, 205, 211 and 222.)

486 -- Limited Partners' Unrealized Depreciation on Loans and Investments

This is a debit balance account and represents the limited partners' share of the aggregate amount by which the general partner(s) has valued the licensee's loans and investments below cost.

Debit:
(a) With amount of depreciation recognized.

Credit:
(a) With decrease in the amount of depreciation resulting from increase in fair value of securities held.
(b) With amount of depreciation attributable to securities sold or disposed of otherwise.

(See account nos. 172, 187, 193, 196, 199, 203, 206, 212 and 223.)

491 -- Entity General Partners' Noncash Gains/Income

This is a credit balance account and represents the entity general partner's share of realized gains and income that have not been converted to cash (see "Accounting Standards and Financial Reporting Requirements for SBICs, section V, paragraph X). While considered to be undistributed earnings, amounts in this account will not be available for distribution or capitalization unless specifically permitted by SBA regulations (see 13 CFR 107.1580). Therefore, such amounts are considered restricted undistributed earnings realized.

Debit:
(a) With cash collections of noncash gains/income previously recognized.
(b) With noncash gains/income written off, distributed in kind to partners, or disposed of otherwise.

Credit:
(a) With amounts of noncash gains/income recognized.

492 -- Individual General Partners' Noncash Gains/Income

This is a credit balance account and represents the individual general partners' share of realized gains and income that have not been converted to cash (see "Accounting Standards and Financial Reporting Requirements for SBICs, section V, paragraph X). While considered to be undistributed earnings, amounts in this account will not be available for distribution or capitalization unless specifically permitted by SBA regulations (see 13 CFR 107.1580). Therefore, such amounts are considered restricted undistributed earnings realized.

Debit:
(a) With cash collections of noncash gains/income previously recognized.
(b) With noncash gains/income written off, distributed in kind to partners, or disposed of otherwise.

Credit:
(a) With amounts of noncash gains/income recognized.

493 -- Entity General Partners' Undistributed Net Realized Earnings (Loss)

This account represents the entity general partner's share of the partnership's cumulative balance of periodic net income (loss), including realized gain (loss) on securities sold, less distributions, and excluding non-cash gains/income which are included in account no. 491.

Debit:
(a) At end of the fiscal year, with entity general partner's share of the debit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.
(b) With entity general partner's share of cash distributions (or fair value of in-kind distributions) paid or allocated from undistributed net realized earnings.

Credit:
(a) At end of the fiscal year, with entity general partner's share of the credit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities, except for credit balances representing non-cash gains/income (see account no. 491).

494 -- Individual General Partners' Undistributed Net Realized Earnings (Loss)

This account represents the individual general partners' share of the partnership's cumulative balance of periodic net income (loss), including realized gain (loss) on securities sold, less distributions, and excluding non-cash gains/income which are included in account no. 492.

Debit:
(a) At end of the fiscal year, with individual general partners' share of the debit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.
(b) With individual general partners' share of cash distributions (or fair value of in-kind distributions) paid or allocated from undistributed net realized earnings.

Credit:
(a) At end of the fiscal year, with individual general partners' share of the credit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities, except for credit balances representing non-cash gains/income (see account no. 492).

495 -- Limited Partners' Noncash Gains/Income

This is a credit balance account and represents the limited partners' share of realized gains and income that have not been converted to cash (see "Accounting Standards and Financial Reporting Requirements for SBICs, section V, paragraph X). While considered to be undistributed earnings, amounts in this account will not be available for distribution or capitalization unless specifically permitted by SBA regulations (see 13 CFR 107.1580). Therefore, such amounts are considered restricted undistributed earnings realized.

Debit:
(a) With amount of cash collected of noncash gains/income previously recognized.
(b) With amount of noncash gains/income written off, distributed to partners, or disposed of otherwise.

Credit:
(a) With amounts of noncash gains/income recognized.

496 -- Limited Partners' Undistributed Net Realized Earnings (Loss)
This account represents the limited partners' share of the partnership's cumulative balance of periodic net income (loss), including realized gain (loss) on securities sold, less distributions, and excluding non-cash gains/income which are included in account no. 495.

Debit:
(a) At end of the fiscal year, with limited partners' share of the debit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.
(b) With limited partners' share of cash distributions (or fair value of in-kind distributions) paid or allocated from undistributed net realized earnings.

Credit:
(a) At end of the fiscal year, with limited partners' share of the credit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities, except for credit balances representing non-cash gains/income (see account no. 495).

497 -- Partnership Year-to-date Net Income
This account may be used to accumulate a partnership licensee's year-to-date balance of net income (loss). Any balance in this account should be closed at the end of the fiscal year to the appropriate Undistributed Net Realized Earnings (Loss) or Noncash Gains/Income account.

Debit:
(a) For any given closing date within a fiscal year, with the year-to-date debit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.

Credit:
(a) For any given closing date within a fiscal year, with the year-to-date credit balances of all income and expense accounts, and accounts representing gains and losses on portfolio securities.

<u>Income/Gain Accounts</u>

GENERAL NOTE: **Income and gain accounts (account nos. 500 through 599) normally have credit balances. At year end, all such accounts must be closed to the appropriate Undistributed Realized Earnings account, either directly or through the use of one or more clearing accounts created by the licensee.**

500 -- Commitment Fee Income
This account represents the amount of fee income earned on commitments to small businesses for loans and equity securities. Nonrefundable fees charged in connection with the origination of a financing may be recognized as income in the period in which the loan is originated. Alternatively, licensees may defer and amortize such fees (net of related costs) over the term of the financing. If a licensee has made a commitment for a financing which does not take place, any nonrefundable commitment fee or "break-up fee" (see 13 CFR 107.860(g)) to which the Licensee is contractually entitled is recognized as income when due.

510 -- Interest on Invested Idle Funds

This account represents the amount of interest earned on permitted investments of idle funds. For licensees with outstanding leverage or applying for leverage, such investments are limited to those listed in 13 CFR 107.530(b).

512 -- Interest on Loans

This account represents the amount of interest earned on loans to small businesses. See Note 2 to account no. 143 regarding accrual of interest under circumstances in which collection is doubtful.

516 -- Interest on Debt Securities

This account represents the amount of interest earned on debt securities of small businesses held by the licensee. See Note 2 to account no. 143 regarding accrual of interest under circumstances in which collection is doubtful.

520 -- Interest Income -- Other

This account represents the amount of interest earned on miscellaneous notes receivable, funds in escrow, and interest-bearing receivables not otherwise classified. See Note 2 to account no. 143 regarding accrual of interest under circumstances in which collection is doubtful.

532 -- Management Service Fees

This account represents the amount of fees charged for management services rendered to small businesses and other small business investment companies pursuant to section 13 CFR 107.900.

534 -- Investigation and Service Fees Charged Other Lenders

This account represents the amount of fees charged for investigation and services rendered to banks or other lenders or investors.

536 -- Application, Closing and Other Fees

This account represents the amount of "application" and "closing" fees earned in accordance with 13 CFR 107.860. The account may also include income earned on other appraisal, investigation, and related services rendered to small businesses. Nonrefundable fees charged in connection with the origination of a financing may be recognized as income in the period in which the loan is originated. Alternatively, licensees may defer and amortize such fees (net of related costs) over the term of the financing.

540 -- Dividends on Capital Stock of Small Businesses

This account represents the amount of income from dividends on common or preferred stock of small businesses held by the licensee. The account includes income from both cash and in-kind ("PIK") dividends.

541 -- Sharing in Income or Revenue of Small Businesses

This account represents the amount of sharing or participations in the income or revenue of small businesses which the licensee has financed by means of loans or debt securities.

570 -- Gain on U.S. Government Securities

This account represents the amount of gain on the sale or other disposition of U.S. Government obligations, direct or fully guaranteed, recorded in account no. 130. Amortization of original issue discount on United States Treasury securities will not be reflected in this account but will be credited to account no. 510 -- Interest on invested idle funds.

571 -- Gain on Loans

This account represents the amount of gain on the sale or other disposition of loans of small businesses recorded in account no. 170, and will include recoveries on loans previously written off.

572 -- Gain on Debt Securities

This account represents the amount of gain on the sale or other disposition of debt securities of small businesses recorded in account nos. 180 and 184, and will include recoveries on debt securities previously written off.

574 -- Gain on Capital Stock of Small Businesses

This account represents the amount of gain on the sale or other disposition of capital stock of small businesses recorded in account nos. 190 and 191, and will include recoveries on capital stock investments previously written off.

575 -- Gain on Equity Interests in Unincorporated Concerns

This account represents the amount of gain on the sale or other disposition of equity interests in unincorporated small businesses recorded in account 194, and will include recoveries on such equity interests previously written off. Under SBIC accounting guidelines, licensees account for their portfolio investments at fair value and do not use the equity method. Therefore, a licensee should not record as income or gain any undistributed income allocated to it by an unincorporated portfolio concern. However, actual distributions which represent income to the licensee (rather than returns of capital) may be recorded in this account.

576 -- Gain on Warrants, Options, and Other Stock Rights Acquired from Small Businesses

This account represents the amount of gain on the sale or other disposition of warrants, options, and other stock rights recorded in account no. 197 or memorandum account NA-10, and will include recoveries on such stock rights previously written off.

577 -- Gain on Assets Acquired in Liquidation of Portfolio Securities

This account represents the amount of gain on the sale or other disposition of assets acquired in liquidation of portfolio securities of small businesses recorded in accounts nos. 200 and 204, and will include recoveries on such assets previously written off.

578 -- Gain on Operating Concerns Acquired

This account represents the amount of gain on the sale or other disposition of investments in operating concerns acquired and will include recoveries on such investments previously written off.

579 -- Gain on Other Assets

This account represents the amount of gain on the sale or other disposition of assets not specifically provided for in other accounts, and will include recoveries on such assets previously written off.

582 -- Income from Assets Acquired in Liquidation of Portfolio Securities

This account represents the amount of income earned on assets acquired in liquidation of portfolio securities (account nos. 200 and 204), including the operation of properties. Any expenses incurred in connection with the operation or disposition of such assets should be charged to account no. 710.

584 -- Other Income

This account represents miscellaneous income which is not specifically provided for in other accounts.

Expense/Loss Accounts

GENERAL NOTE: **Expense and loss accounts (account nos. 600 through 799) normally have debit balances. At year end, all such accounts must be closed to Undistributed Net Realized Earnings, either directly or through the use of one or more clearing accounts created by the licensee.**

600 -- Commitment Expense

This account represents the amount of commitment expense associated with funding commitments obtained from non-SBA lenders. SBA leverage fees, whether paid pursuant to a commitment or at the time leverage is drawn, should be recorded initially in account no. 278 and amortized to expense over the appropriate period (see account no. 278).

610 -- Interest on Obligations Payable to or Guaranteed by SBA

This account represents the amount of interest expense accrued on debenture or other obligations payable to or guaranteed by the Small Business Administration.

622 -- Interest on Non-SBA Obligations

This account represents the amount of interest expense accrued on obligations neither payable to nor guaranteed by the Small Business Administration.

641 -- Annual Fee on Obligations Guaranteed by SBA

This account represents the amount of the additional fee (currently 1 percent per annum) payable to SBA on debenture leverage issued on or after October 1, 1996 (except for debentures issued pursuant to a commitment obtained from SBA before October 1, 1996). The annual fee is payable under the same terms and conditions as interest on the debentures.

642 -- Stock Record and Other Financial Expenses

This account represents the amount of charges to the licensee by its transfer agent and the registrar for services rendered in connection with the issuance and transfer of licensee's capital stock, and will include other financial expenses not provided for elsewhere.

650 - 679 -- Operating Expenses

650 -- Advertising and Promotional Costs

This account represents the cost of advertising and promoting the licensee's services, including the cost of entertaining prospective borrowers and clients.

651 -- Appraisal and Investigation Costs

This account represents charges made by outside firms and individuals for appraisal, investigation, and related services rendered to the licensee.

652 -- Auditing and Examination Costs

This account represents charges for auditing, examination, and bookkeeping services rendered by accountants not on the licensee's payroll, and examination fees charged by SBA.

653 -- Communications

This account represents telephone, postage, express delivery and related expenses.

654 -- Cost of Space Occupied

This account represents the cost of space occupied such as rent, alterations, light, heat, power, janitor service, maintenance and repair expense on buildings, furniture, and equipment (other than automobiles), etc.

655 -- Depreciation of Business Premises Owned, Furniture, Equipment and Automobiles

This account represents the provision applicable to the fiscal period for depreciation of real and personal property owned by the licensee and recorded in account nos. 240 and 250.
Licensee may depreciate such assets using any generally accepted method. Amortization of leasehold improvements will be recorded in account no. 656.

656 -- Amortization of Leasehold Improvements

This account represents the periodic amortization of leasehold improvements recorded in account no. 252.

657 -- Directors, Stockholders' or Partners' Meetings Costs

This account represents directors' fees and travel expense for attendance at directors' and stockholders' or partners' meetings. The account also will include the cost of holding stockholders' or partners' meetings, such as rental of the meeting hall and related expenses.

658 -- Insurance

This account represents fire, theft, employee group life insurance, and other insurance expense, including fidelity bond, premiums and insurance on automobiles. The portion, if any, of employee group life insurance premiums withheld from salaries or received from employees will be reflected in account no. 378. Prepaid insurance premiums will be recorded initially in account no. 230.

659 -- Management Services Fees

This account represents expense incurred for management services provided to licensee by outside firms or individuals, pursuant to a management agreement approved by SBA. A licensee which pays a management fee that covers its normal operating expenses may record the entire fee in this account; it is not necessary to allocate the fee to the various operating expense accounts.

660 -- Investment Advisor Costs

This account represents expense incurred for investment management and advice provided to licensee by outside firms or individuals, pursuant to an agreement approved by SBA.

661 -- Legal Services

This account represents the cost of outside legal services rendered to the licensee.

663 -- Salaries

This account will include the balance in subaccount nos. 663.1 and 663.2.

663.1 -- Salaries of Officers or Partners

This account represents the salary expense for all officers/partners of the licensee, including directors' salaries, if any, but not directors' fees for attendance at meetings.

663.2 -- Salaries of Employees

This account represents the salary expense for all employees other than officers/partners, including salaries of any temporary or part-time employees engaged for specific assignments.

664 -- Taxes, Excluding Income Taxes

This account represents the cost of all taxes, including those on real property, motor vehicles and other personal property, licensee's portion of social security taxes, and other tax expense, exclusive of income taxes.

665 -- Travel

This account represents all travel expense, including transportation charges, automobile maintenance, operating expense, meals, lodging, telephone, and other costs incurred by partners, officers, employees, etc. while traveling on behalf of the licensee.

670 -- Employee Benefits Expense

This account represents expense incurred for employee retirement benefits and other types of employee benefits, except group life insurance. The portion, if any, of the cost of employee benefits withheld from salaries or received from employees will be reflected in account no. 378.

672 -- Organization Costs
This account represents the amount of legal fees, promotional expense, stock certificate costs, incorporation fees, taxes, and other related costs incurred in organizing the licensee. Previously, generally accepted accounting principles required organization costs to be capitalized and amortized over a 5-year period. However, in accordance with AICPA Statement of Position 98-5 (April 3, 1998), organization costs should now be expensed as they are incurred. The Statement is effective for fiscal years beginning after December 15, 1998, but earlier application is encouraged in fiscal years for which financial statements have not been issued.

673 -- Amortization of Deferred Financing Costs.
This account represents the portion of deferred financing costs from account no. 278 recognized as a period expense.

679 -- Miscellaneous Operating Expenses
This account represents the amount of operating expenses not specifically provided for in other accounts. Examples include dues, subscriptions, bank service charges, office supplies, etc.

680 -- Estimated Losses on Receivables
This account represents the amount of estimated losses applicable to the fiscal period on notes and accounts receivable, and interest receivable.

700 -- Loss on U.S. Government Securities
This account represents realized loss on the sale or other disposition of United States Government obligations, direct or fully guaranteed, recorded in account nos. 130 - 135.

701 -- Loss on Loans
This account represents realized loss on the sale, writeoff or other disposition of loans recorded in account no. 170.

702 -- Loss on Debt Securities
This account represents realized loss on the sale, writeoff or other disposition of debt securities recorded in account nos. 180 and 184.

704 -- Loss on Capital Stock of Small Businesses
This account represents realized loss on the sale, writeoff or other disposition of capital stock of small businesses recorded in account nos. 190 and 191.

705 -- Loss on Equity Interests in Unincorporated Concern
This account represents realized loss on the sale, writeoff or other disposition of equity interests in unincorporated concerns recorded in account no. 194. Under SBIC accounting guidelines, licensees account for their portfolio investments at fair value and do not use the equity method. Therefore, a licensee should not reduce its cost basis (in account no. 194) or reflect a loss in this account based on losses allocated to it by an unincorporated portfolio concern.

706 -- Loss on Warrants, Options, and Other Stock Rights Acquired from Small Businesses
This account represents realized loss on the sale, writeoff or other disposition of warrants, options, and other stock rights recorded in account no. 197 or memorandum account NA-10.

707 -- Loss on Assets Acquired in Liquidation of Portfolio Securities
This account represents realized loss on the sale, writeoff or other disposition of assets acquired in liquidation of portfolio securities, recorded in account nos. 200 and 204.

708 -- Loss on Operating Concerns Acquired
This account represents realized loss on the sale, writeoff or other disposition of investments in operating concerns acquired, recorded in account no. 210.

709 -- Loss on Other Assets
This account represents realized loss on the sale, writeoff or other disposition of miscellaneous assets not specifically provided for in other accounts.

710 -- Expense on Assets Acquired in Liquidation of Portfolio Securities
This account represents expense incurred on assets acquired in liquidation of portfolio securities (account no. 204), including the operation and depreciation of properties. The account also will include interest expense arising from mortgages on such assets assumed by the licensee.

715 -- Other Expenses
This account represents miscellaneous nonoperating expenses not specifically provided for in other accounts.

720 -- Income taxes -- Net Investment Income
This account will include the balances in subaccount nos. 720.1, 720.2, 720.3, etc.

720.1 -- Federal Income Taxes -- Net Investment Income
This account represents licensee's Federal income tax provision applicable to its net investment income for the current fiscal year. If licensee has a Federal income tax benefit, it may be credited to this account.

720.2 -- State Income Taxes -- Net Investment Income
This account represents licensee's State income tax provision applicable to its net investment income for the current fiscal year. If licensee has a State income tax benefit, it may be credited to this account.

722 -- Income Taxes -- Net Realized Gain on Investments
This account will include the balance in subaccount nos. 722.1, 722.2, 722.3, etc.

722.1 -- Federal Income Taxes -- Net Realized Gain on Investments.
This account represents licensee's Federal income tax provision applicable to its net realized gain on investments for the current fiscal year. If licensee has a Federal income tax benefit, it may be credited to this account.

722.2 -- State Income Taxes -- Net Realized Gain on Investments.
This account represents licensee's State income tax provision applicable to its net realized gain on investments for the current fiscal year. If licensee has a State income tax benefit, it may be credited to this account.

Memorandum Records

Nominal Assets
NA - 10 -- Stock Purchase Warrants or Options on Stock of Small Businesses. This record will show the licensee's ownership of detachable stock purchase warrants or options on stock of small businesses, retained after the accompanying financing instruments have been disposed of, for which no consideration was given distinct from that surrendered for such financing instruments and for which no separate cost has otherwise been determined. Each such

detachable stock purchase warrant or option certificate should be entered in this record, upon detachment, at a nominal value of one dollar. Upon sale, upon exercise or expiration of rights, or upon the determination of a cost to be recorded for such a detached stock purchase warrant or option, the entry established in this memorandum account will be discharged through an equivalent reduction.

(See accounts nos. 180, 190, and 197.)

Contingent Liabilities

CL - 15 -- Commitments Outstanding. This record will show the amount of financing commitments made and outstanding to small businesses. This record also will show the amount of deferred participations. A deferred participation is defined as a commitment under a participation agreement whereby the "participating" company will make funds available on a deferred basis to the "initiating" company in connection with the latter's financing of, or commitment to finance, a small business, or in connection with an "initiating" small business investment company's acquisition of loans or equity securities from other such companies. When funds are advanced against commitments, appropriate entry will be made in this record.

CL - 16 -- Guarantees Outstanding. This record will show the amount for which the licensee is contingently liable under guarantees issued to lending institutions or other non-Associate creditors in connection with the debt obligations of portfolio concerns.

CL - 17 -- Other Contingent Liabilities. This record will show the amount of miscellaneous contingent obligations not otherwise classified.

Options on Licensee's Stock

OCS - 1 -- Options on Licensee's Stock. This record will show details of outstanding options on the licensee's capital stock granted in lieu of salary or in payment for services actually rendered to the licensee. The following data will be included:

1. Identification of person or entity holding options.
2. Number of shares optioned.
3. Type and class of stock called for by options.
4. Dates of grant and of expiration of options.
5. Price or prices at which options exercisable, with dates they apply.
6. Fair market value, per share, of stock called for at date each option was granted.
7. Price of each option as percent of fair market value of optioned stock at date option was granted.
8. Provisions for termination in case of death or retirement of option holders, or other circumstances.
9. Details of authorization, shares reserved for, issuance, exercise, lapse, and forfeiture of options provided for under the licensee's stock option plan.

Actual Loss Experience

AL - 1 -- Actual (Realized) Losses. This record will show for each fiscal year, and also cumulatively, the amount of actual (realized) losses incurred through disposition, writedown, or write-off of loans and investments. Losses shall be stated in total for all loans and investments and also separately for loans; debt securities; capital stock of small Businesses; warrants; options, and other stock rights of small Businesses; assets acquired in liquidation of loans and debt securities; and amounts due from debtors on sale of assets acquired in liquidation of loans and debt securities. Losses realized shall be determined in relation to cost of the assets involved without regard to the existence or nonexistence of related allowances for losses.

WI -1 -- Worthless Investments Written Off.

SBA Preferred Stock Dividends

PDA -1 -- Preferred Dividend Arrearages on 3 Percent Preferred Stock Sold to SBA.
A memorandum account will be established showing:
(a) The amount of each arrearage
(b) The total amount of arrearage

The licensee will disclose the above information by an appropriate footnote.

Prioritized Payments Accumulated
PPA - 1 -- Prioritized Payments Accumulation Account. This record will be used by licensees which have issued Participating Securities and will show the total amount of Prioritized Payments, Adjustments and Charges (all as defined in 13 CFR 107.50) which are accumulated but not yet "earned." This record will be increased as Prioritized Payments, Adjustments and Charges are accumulated for a given period, and decreased as such accumulations become "earned" and transferred to account 435 - Prioritized Payment Distribution Account.

Prioritized Payments Earned
PPE - 1 -- Prioritized Payments Earned Account. This record will be used by licensees which have issued Participating Securities and will show the cumulative amount of Prioritized Payments, Adjustments and Charges which have become "earned", including those amounts already distributed. Each time that an amount is credited to the Prioritized Payment Distribution Account (account no.435), the Earned Payments Account must be increased by an equal amount. The Earned Payments Account balance is never decreased.

Binding Commitments from Institutional Investors
BCI - 1 -- Binding Commitments from Institutional Investors. This record will show the total amount of binding commitments from Institutional Investors to make future investments in the licensee. Such binding commitments are included in the licensee's Private Capital and, to the extent that collectibility is not considered to be questionable by SBA, the licensee's Regulatory Capital. This record will be increased/decreased to reflect any additions/reductions in the total amount of the Licensee's binding commitments from Institutional Investors.

Other Commitments from investors
OCI 1 -- Other Commitments from Investors. This record will show the total amount of financing commitments made to licensee not qualifying as binding commitments from Institutional Investors. Such commitments are not included in the licensee's Private or Regulatory Capital. This record will be increased/decreased to reflect any additions/reductions in the total amount of such commitments to invest in Licensee.

Conditional Leverage Commitments by SBA
CLC - 1 -- Conditional Leverage Commitments by SBA. This record will show the total amount of SBA conditional commitments made to reserve leverage funds for future draws by the licensee. Such commitments expire on the 60th calendar day preceding the close of the next full fiscal year following the issuance of such commitment by SBA. This record will be increased/decreased to reflect any additions/reductions in the total amount of such leverage commitments granted by SBA.

Preferential Liquidating Interest of SBA
PLI - 1 -- Preferential Liquidating Interest of SBA. This record will be used by Section 301(d) Licensees which have repurchased their 3 percent preferred stock from SBA and will show SBA's preferential liquidating interest in the Licensee's equity account no. 418 - Restricted Contributed Capital Surplus. This liquidating interest will initially be equal to the amount credited to account 418 as discount from the repurchase of the 3 percent preferred stock. This interest will be amortized over a 5-year period or, if applicable, the term of any borrowing used to finance the repurchase.